

PUBLIC DISCLOSURE

January 28, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas Security Bank
Certificate Number: 58739

1212 Turtle Creek Boulevard
Dallas, Texas 75207

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Dallas Regional Office

1601 Bryan Street, Suite 1410
Dallas, Texas 75201

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 RATING

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The outstanding Community Development Test rating did not warrant a stronger overall rating given the level of satisfactory performance under the Lending Test, thus supporting the overall Satisfactory rating. Examiners did not identify any discriminatory or other illegal credit acts or practices; therefore, this consideration did not affect the overall rating. The following points summarize records regarding each test, discussed in detail elsewhere.

The Lending Test is rated Satisfactory.

- The bank exhibited a more than reasonable record regarding its loan-to-deposit ratio. More than reasonable overall and comparative levels support this conclusion.
- The institution granted a majority of its loans inside its assessment area. The majority of small business and home mortgage loans originated inside of its assessment area supports this conclusion.
- The bank established a poor record regarding its borrower profile distribution. Poor performance regarding small business and home mortgage loans in its assessment area supports this conclusion.
- The bank established a reasonable record regarding its geographic distribution. The excellent small business lending hampered by the reasonable home mortgage lending in the assessment area supports this conclusion.
- The bank did not receive any CRA-related complaints since the previous evaluation. Therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Outstanding.

Texas Security Bank exhibited an outstanding record regarding the Community Development Test. The bank demonstrated its role in the community and its excellent responsiveness to community development needs in the assessment area through an excellent level of community development lending and an excellent level of community development services, while not ignoring community development investments. Examiners considered the institution's capacity and the needs and availability of such opportunities for community development in the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from April 1, 2013, to January 28, 2019, the date of the previous evaluation to this evaluation's date. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate Texas Security Bank's CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

The Lending Test considered the institution's performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Borrower profile
- Geographic distribution
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments, and community development services
- The responsiveness of such activities to the community development needs of the assessment area

Banks must achieve at least a satisfactory rating under each test to obtain an overall satisfactory rating. This evaluation does not include lending activity performed by affiliates.

Lending Test

Loan Products Reviewed

CRA Intermediate Small Bank procedures require examiners to determine the bank's major product lines from which to review. As an initial matter, examiners may select from among the same loan categories used for CRA Large Bank evaluations: home mortgage, small business, small farm, and consumer loans.

Considering the bank's overall lending strategy and the bank's dollar volume and number of loans originated during the evaluation period, examiners determined that the bank's major product lines consist of Commercial (Commercial & Industrial and Non-Farm Non Residential) and Home Mortgage (1-4 Family Residential and Multifamily) lending at 57.3 and 28.8 percent of the dollar volume, and 49.3 and 42.6 percent of the number volume, respectively. Consumer loans only accounted for 0.6 percent of the loans originated by dollar volume and 3.8 percent of the number volume, and the bank did not originate any agricultural purpose loans. Therefore, these types of lending did not represent major product lines and inclusion of these products would provide no material support for conclusions or ratings.

The following table shows the bank's 2018 lending activity by loan category, which reflects a

generally consistent pattern with the bank’s lending emphasis since last evaluation.

Loans Originated or Purchased				
Loan Category	\$(000s)	%	#	%
Construction & Land Development	37,601	13.3	17	4.3
Secured by 1-4 Family Residential	65,347	23.2	166	42.3
Secured by Multi-Family Residential	15,900	5.6	1	0.3
Secured by Commercial Real Estate	64,928	23.0	52	13.2
Total Real Estate Loans	183,776	65.1	236	60.1
Commercial & Industrial	96,965	34.3	142	36.1
Consumer	1,663	0.6	15	3.8
Total Loans	282,404	100.0	393	100.0

Source: Bank Records (1/1/18 – 12/31/18).

Examiners identified a small business universe of 150 small business loans totaling \$48.0 million from the total 194 commercial loans totaling \$161.9 million. Examiners used all 150 small business loans totaling \$48.0 million to arrive at applicable conclusions for the assessment area concentration performance factor. However, out of those 150 small business loans, examiners selected a random sample of 47 small business loans totaling \$14.4 million, inside the bank’s assessment area, to arrive at applicable conclusions for the borrower profile and geographic distribution performance factors. Examiners based the sample on a 90 percent confidence interval with a greater than 10 percent precision level. D&B data for 2018 provided a standard of comparison for the sampled small business loans.

In addition, due to the availability of aggregate data, examiners selected for analysis all originated and purchased home mortgage loans reported pursuant to the Home Mortgage Disclosure Act (HMDA) in 2017. Consequently, examiners used the 115 loans totaling \$51.6 million reported on the bank’s 2017 HMDA Loan Application Register for analysis. In addition, examiners utilized 2016 HMDA data for trend analysis. Under the borrower profile and geographic distribution performance factors, examiners analyzed only those loans originated within the bank’s sole assessment area. Examiners used the demographics of the institution’s assessment area based on the 2015 American Community Survey (ACS) Census to analyze the bank’s home mortgage lending. Further, 2017 HMDA aggregate data provided the standard of comparison.

Loan Product Weighting

Bank records indicate the lending focus and product mix remained consistent throughout the evaluation period. Examiners considered the universes of the dollar volume and number of loans originated in 2018 for the loan categories reviewed as well as management’s stated business strategy to determine the weighting applied to those loan categories.

The following table shows that for the bank’s activities for the loan categories reviewed, considering both the dollar volume and number percentages, home mortgage loans account for 51.8 percent of the loans reviewed by dollar volume while small business loans account for 48.2 percent. By number volume, small business loans hold the larger percentage at 56.6 percent,

while home mortgage loans represent 43.4 percent. Consequently, considering the number and dollar volume of lending, examiners determined small business lending would receive slightly more weight when arriving at applicable conclusions.

Loan Category Weighting				
Loan Category	Universes of Loan Categories Reviewed			
	\$(000s)	%	#	%
Small Business	47,958	48.2	150	56.6
Home Mortgage	51,579	51.8	115	43.4
Total Reviewed Categories	99,537	100.0	265	100.0
<i>Source: Bank Records from 01/01/2018 through 12/31/2018; 2017 HMDA LAR</i>				

The performance evaluation presents information regarding the number and dollar volume of home mortgage and small business loans; however, for the Lending Test, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of families and businesses served.

Community Development Test

The Community Development Test considered all community development activities since the previous April 1, 2013, FDIC Performance Evaluation. The scope of this evaluation further encompassed all prior period qualified investments, those purchased prior to the evaluation, but still outstanding as of this evaluation's date.

DESCRIPTION OF INSTITUTION

Background

Texas Security Bank (TSB), headquartered in Dallas, Texas, began operations in 2008. The bank operates from its main office in Dallas, Texas and two full-service branches: one in Garland and the other in Farmers Branch. Texas Security Bancshares, Inc., a one-bank holding company, wholly owns TSB. The bank has two subsidiaries: 1) TSB Financial Services, a wholly owned subsidiary of TSB, which serves as the bank's licensed insurance agent, and 2) TSBRE Property Company, a wholly owned subsidiary of TSB, which owns the bank's banking facilities and Other Real Estate holdings. The bank received a Satisfactory rating based on Small Bank Examination Procedures at the April 1, 2013 CRA evaluation.

Operations

TSB operates from its three full-service offices in its assessment area located within the Dallas-Plano-Irving Metropolitan Division (Dallas MD). The main office operates in Dallas, Texas. The Garland Branch lies within the city of Garland, Texas and the Metro Crest Branch, which opened in October of 2013, is located in Farmers Branch, Texas. The bank did not experience any other branch opening or closure activity, or participated in any merger or acquisition activity since last examination.

The institution maintains banking hours typical for its area and the industry with lobby hours from 9:00 AM to 4:00 PM. TSB does not have any proprietary automated teller machines (ATM), but does offer access to over 32,000 ATMs through its network partners. TSB also offers drive-thru services during the week (9:00 AM to 5:00 PM) at the Main Office and the Garland Branch. In addition, customers maintain 24-hour access to their accounts via online banking.

The bank offers a full line of loan products including commercial, residential, and consumer loans, as well as a variety of deposit services and on-line banking through the institution's website. The bank also offers Small Business Administration (SBA) loans and personal lines of credit.

Ability and Capacity

As of September 30, 2018, the bank reported total assets of \$452.5 million, net loans of \$375.0 million, and total deposits of \$353.6 million. Since the previous CRA evaluation, total assets grew 56.8 percent, net loans increased 59.7 percent, and total deposits increased 52.0 percent. The table below, which reflects the bank's asset distribution as of the September 30, 2018, shows the Net Loans and Leases category continues to be the largest bank asset at 82.9 percent.

Asset Distribution		
Asset Category	\$(000s)	%
Cash	35,722	7.9
Securities	20,392	4.5
Federal Funds Sold	10,000	2.2
Loans and Leases held for sale	1,863	0.4
Net Loans & Leases	375,014	82.9
Trading Assets	0	0.0
Premises & Fixed Assets	5,370	1.2
Other Real Estate Owned	0	0.0
Intangible Assets	361	0.1
Other Assets	3,740	0.8
Total Assets	452,462	100.0
<i>Source: Report of Income and Condition (09/30/2018).</i>		

As seen in the following table, the mix of outstanding loans as of the September 30, 2018, Report of Income and Condition reflects a similar distribution to that shown for originated loans under the Scope of Evaluation. The primary lending products remained the same (Home Mortgage and Commercial). Commercial loans represent the largest loan category of outstanding loans at 63.9 percent, followed by home mortgage loans at 27.5 percent. These two lending products represent 91.4 percent of the bank's loan activity.

Loan Portfolio Distribution as of 09/30/2018		
Loan Category	\$(000s)	%
Construction & Land Development	31,478	8.2
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential	93,819	24.5
Secured by Multi-Family Residential	11,336	3.0
Secured by Commercial Real Estate	161,473	42.2
Total Real Estate Loans	298,106	77.9
Agricultural Production	0	0.0
Commercial and Industrial	83,152	21.7
Consumer	1,311	0.4
Other Loans	2	<0.1
Total Gross Loans	382,571	100.0
<i>Source: Report of Income and Condition (09/30/2018).</i>		

Based on the information discussed in this section, as well as other regulatory data, the institution's financial condition, size, product offerings, prior performance, and status of any legal impediments did not affect its ability to meet the assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

Overall Description

The CRA requires each financial institution to define one or more assessment areas (AA) within which its CRA performance will be evaluated. TSB designated 303 census tracts within the Dallas MD, encompassing a portion of Dallas County, as its assessment area for CRA purposes. The area conforms to CRA regulatory requirements. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

TSB’s AA consists of 303 census tracts within Dallas County. Since last CRA evaluation dated April 1, 2013, the Bank added 116 census tracts and removed 22 census tracts within the same County. The current 303 census tracts hold the following income designations based on 2015 ACS Census data:

- 52 low-income tracts,
- 89 moderate-income tracts,
- 66 middle-income tracts,
- 93 upper-income tracts, and
- 3 tracts with no income designation.

The Dallas MD AA houses all three TSB’s offices in the cities of Dallas, Garland, and Farmers Branch. The Turtle Creek Main Office and the Garland Branch operate within moderate-income geographies; whereas the Metro Crest Branch operates within an upper-income geography, as illustrated in the table below.

Office Locations				
Office/Address	Office Type	Census Tract Number	Census Tract Income Level	Office Opened or Closed Since Last Evaluation
<i>Turtle Creek</i> 1212 Turtle Creek Boulevard Dallas, Texas	Main office	0100.00	Moderate	No
<i>Garland</i> 101 North Garland Avenue Garland, Texas	Branch	0188.02	Moderate	No
<i>Metro Crest</i> 3212 East Belt Line Road Farmers Branch, Texas	Branch	0138.03	Upper	Yes

Source: Bank Records; 2015 ACS Census

According to the 2015 ACS Census data, the population of TSB’s AA stood at 1,286,057. The following table shows additional demographic and economic characteristics of the bank’s assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	303	17.2	29.4	21.8	30.7	1.0
Population by Geography	1,286,057	18.3	31.9	23.5	25.9	0.3
Housing Units by Geography	544,952	18.2	27.6	23.9	29.8	0.4
Owner-Occupied Units by Geography	220,327	5.9	26.1	25.3	42.3	0.4
Occupied Rental Units by Geography	274,085	26.6	29.1	23.6	20.3	0.4
Vacant Units by Geography	50,540	26.6	25.9	19.5	27.5	0.5
Businesses by Geography	151,882	8.8	23.2	26.1	40.3	1.7
Farms by Geography	2,045	7.5	24.5	23.6	42.8	1.6
Family Distribution by Income Level	292,217	29.6	17.8	16.2	36.5	0.0
Household Distribution by Income Level	494,412	27.5	18.2	17.5	36.8	0.0
2015 Median Family Income MSA Dallas/Plano/Irving, TX MD FFIEC-Estimated Median Family Income for 2018	\$71,149 \$77,200	Median Housing Value Median Gross Rent Families Below Poverty Level			\$213,935 \$980 14.5%	
<i>Source: 2015 ACS Census and 2018 D&B Data (*) The NA category consists of geographies that have not been assigned an income classification Due to rounding, totals may not equal 100.0</i>						

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by gross annual revenue (GAR) level. According to 2018 D&B data, the assessment area includes 151,882 businesses. The following includes the breakdown of GAR for these businesses.

- 81.9 percent reported GARs of \$1 million or less.
- 7.9 percent reported GARs exceeding \$1 million.
- 10.2 percent of businesses have unknown revenues.

Examiners utilized the 2018 Federal Financial Institutions Examination Council's (FFIEC) updated Median Family Income (MFI) level to analyze home mortgage loans under the Borrower Profile criterion. The following table includes the income categories for the Dallas MD AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
TX Dallas Plano Irving MSA Median Family Income				
2018 (\$77,200)	<\$38,600	\$38,600 to <\$61,760	\$61,760 to <\$92,640	≥\$92,640
<i>Source: FFIEC</i>				

There are 544,952 housing units in the bank's AA. Of these, 40.4 percent are owner-occupied, 50.3 percent are occupied rental units, and 9.3 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

As illustrated in the table below and based on the 2018 U.S. Bureau of Labor Statistics, Dallas County’s average unemployment rate at 3.8 percent, fell lower than the average State rate of 4.0 percent and the average U.S. rate of 4.0 percent for the same period.

Unemployment Rates			
Area	2016	2017	September 2018
	%	%	%
Dallas County	4.0	3.9	3.8
State	4.6	4.3	4.0
National Average	4.9	4.4	4.0

Source: Bureau of Labor Statistics

D&B Business Demographic Data (D&B) reflect the largest employment sectors include: services, retail, and finance/insurance/real estate. The largest employers in the area include American Airlines, Bank of America, Texas Health Resources Inc., and Baylor Health Care Systems.

Corporate expansion continues to drive solid growth in professional and financial services. The biggest is Toyota’s relocation of its North American headquarters from California to Plano, leading to several thousand workers relocating to the area from California, Kentucky, and New York. According to Moody’s analysis report, Texas’ business-friendly environment and lower cost of doing business were elements in the company’s decision to choose the Dallas area. Other factors include the well-educated labor pool and the presence of centrally located transportation facilities, including Dallas-Fort Worth Airport and BNSF Railroad.

Competition

The assessment area is highly competitive in the market for financial services. According to the FDIC Deposit Market Share data as of June 30, 2018, there were 164 financial institutions that operated 1,659 full-service offices within the TSB’s assessment area. TSB ranks 50th in deposit market share by capturing 0.13 percent of the area’s deposits. The high competition level indicates limited lending opportunities.

Further, the area contains a high level of competition for home mortgage loans among several banks, credit unions, and non-depository mortgage lenders. In 2017, 709 lenders reported a total of 46,252 residential mortgage loans originated or purchased. TSB ranked 139th out of this group of lenders, with a market share of 0.1 percent.

Community Contact

As a part of the evaluation process, examiners contacted a third party active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to those needs. It also shows what credit and community development opportunities are available.

Examiners utilized an established community contact to help assess the area’s current economic conditions, community credit needs, and potential opportunities for bank involvement. The contact noted the economic condition of the area is stable with a growing trend. In addition, the

contact noted that the area continues to experience an influx of large companies moving their headquarters to the Dallas Metroplex. The contact expects this trend to continue for the next few years. As noted by the contact, Dallas population and job opportunities have steadily increase.

The contact also indicated there are sufficient existing opportunities for involvement of financial institutions regarding small business development. However, competition for these opportunities increased due to a number of banks outside the city expressing interest in small business opportunities throughout Dallas. The contact acknowledged that many of these opportunities may require significant resources and expertise that smaller institutions may not be able to provide. Opportunities for banks to partner with both public and private entities are readily available. Overall, the contact felt financial institutions have been responsive to the credit and community development needs of the area.

Credit and Community Development Needs and Opportunities

Considering information from the community contact, bank management, and demographic and economic data, examiners determined small business represent the primary credit needs of the assessment area. The significant percentage (69.3%) of small businesses operating in this area, with gross annual revenues under \$250,000, supports this conclusion. Economic development and activities that revitalize and stabilize low- and moderate-income geographies serve as the primary community development needs.

CONCLUSIONS ON PERFORMANCE CRITERIA

Format

This evaluation presents information for the bank as a whole regarding the loan-to-deposit ratio and assessment area concentration performance factors under the Lending Test and regarding the Community Development Test. Both of the loan distribution performance factors under the Lending Test discuss the bank's record in the assessment area.

LENDING TEST

TSB demonstrated a satisfactory overall record regarding the Lending Test. The reasonable geographic distribution performance outweighed the poor borrower profile performance to primarily support this conclusion. In addition, the bank displayed a more than reasonable loan-to-deposit ratio and granted the majority of loans inside its assessment area.

For the CRA Intermediate Small Bank Lending Test, once a bank displays at least satisfactory performance regarding its loan-to-deposit ratio and its assessment area concentration, examiners will then place more weight on the borrower profile and geographic loan distributions when arriving at the overall rating.

Loan-to-Deposit Ratio

The bank exhibited a more than reasonable record regarding its loan-to-deposit (LTD) ratio. More than reasonable overall and comparative levels support this conclusion. Examiners considered the bank's size, business strategy, and capacity relative to the assessment area credit needs when arriving at this conclusion.

Overall Level

The LTD ratio demonstrated more than reasonable performance given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Report of Condition and Income data, averaged 93.3 percent over the past 22 calendar quarters, slightly higher than the average, net LTD ratio of 87.0 percent reported at last evaluation. The bank's quarterly net LTD ratios ranged from a low of 84.2 percent in December 31, 2013, to a high of 101.1 percent in June 30, 2018.

Within the context of the noted considerations, particularly the bank's relative capacity with respect to its deposits, the overall level of the bank's LTD ratio reflects more than reasonable performance.

Comparable Level

The comparative level of the bank's average, net LTD ratio reflects more than reasonable performance. Examiners identified and listed in the following table three similarly-situated institutions operating in or near the bank's assessment area and reflecting similar asset sizes and/or lending emphases.

As illustrated in the table below, TSB’s ratio exceeds the ratios of all similarly-situated institutions. Specifically, the bank’s ratio lands between 11.4 and 30.6 percentage points higher than the other institutions. Therefore, considering the comparative level, the bank’s average, net LTD ratio reflects more than reasonable performance.

LTD Ratio Comparative Level		
Bank Name and Location	Total Assets \$(000s)	Average, Net LTD Ratio (%)
Texas Security Bank, Dallas, TX	452,462	93.3
Similarly-Situated Banks		
United Texas Bank, Dallas, TX	491,119	81.9
Pegasus Bank, Dallas, TX	657,490	62.7
Grand Bank of Texas, Dallas, TX	353,086	81.1
<i>Source: Reports of Income and Condition (6/30/13 to 9/30/18).</i>		

Consequently, given the two measures’ relative conclusions and weightings, the bank exhibited a more than reasonable record regarding its LTD ratio.

Assessment Area Concentration

The institution originated a majority of its lending inside its assessment area. The majority of home mortgage and small business loans originated inside the assessment area supports this conclusion. Examiners considered the bank’s asset size and office structure as well as the loan categories reviewed relative to the combined size and economy of its assessment area when arriving at this conclusion.

The following table shows TSB originated a majority of its small business and home mortgage lending inside its assessment area, by number and dollar volume.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total #	Inside		Outside		Total \$(000s)
	#	%	#	%		\$	%	\$	%	
Small Business	100	66.7	50	33.3	150	30,899	64.4	17,059	35.6	47,958
Home Mortgage	61	53.0	54	47.0	115	33,486	64.9	18,093	35.1	51,579
<i>Source: 2015 ACS Census, HMDA LAR 2017, and 2018 Bank Data Due to rounding, totals may not equal 100.0</i>										

Borrower Profile Distribution

The distribution of borrowers reflects poor penetration among individuals of different income levels and businesses of different sizes in the assessment areas. Poor performance regarding small business and home mortgage lending supports this conclusion. Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues. Examiners focused on the percentages by number of home mortgage loans to

low- to moderate-income families and small business loans to businesses with gross annual revenues of \$1 million or less when arriving at this conclusion. This factor considered all home mortgage and a sample of small business loans originated inside the bank’s assessment area.

Small Business Loans

TSB demonstrated a poor record regarding its distribution of small business loans among businesses of different sizes. Examiners focused on the bank’s level of lending to businesses with gross annual revenues of \$1 million or less when arriving at this conclusion. The businesses’ gross annual revenues define the borrowers’ profiles for this review.

The following table shows the bank originated 24.4 percent of its sampled small business loans, by number, to businesses with gross annual revenues of \$1 million or less. This number falls significantly below the 2018 D&B demographic of 81.9 percent, by 57.5 percentage points. In addition, lending to the smallest categories (\$0-\$250,000) of businesses falls below D&B data by 58.2 percentage points. These numbers are generally reflective of very poor performance. However, examiners considered factors such as bank’s short length of establishment (since 2008), limited number of offices (3 out of 1,659 financial institution offices in the area), minimal deposits market share (0.1 percent), and lending market share (0.1 percent) to arrive at applicable conclusions. Considering the performance context and outreach strategies established by the bank, examiners considered the bank’s small business borrower profile distribution poor.

Detailed Distribution of Small Business Loans by Gross Annual Revenues					
Gross Annual Revenues (000s)	Distribution of Businesses (% of #)	Bank’s Small Business Loans			
		#	%	\$(000s)	%
\$0 < \$100	41.9	2	4.4	350	2.5
\$100 < \$250	27.4	3	6.7	1,000	7.3
\$250 < \$500	7.9	1	2.2	40	0.3
\$500 ≤ \$1,000	4.7	5	11.1	901	6.6
<i>Subtotal ≤ \$1,000</i>	<i>81.9</i>	<i>11</i>	<i>24.4</i>	<i>2,291</i>	<i>16.7</i>
> \$1,000	7.9	34	75.6	11,442	83.3
Revenues Not Known	10.2	0	0.0	0	0.0
Total	100.00	45	100.0	13,733	100.0

*Source: D&B Data (2018); Bank Records (2018).
Due to rounding, totals may not equal 100.0*

Home Mortgage Loans

TSB demonstrated a poor record regarding its distribution of home mortgage loans among the various income levels. The poor level of lending to moderate-income borrowers primarily supports this conclusion. Examiners focused on the overall levels of the bank’s percentages and comparisons to aggregate data when arriving at conclusions.

The following table shows the bank originated 1.6 percent of its home mortgage loans, by number, to low-income borrowers. This number falls below aggregate performance by 2.4 percentage points, generally reflective of reasonable performance. The bank originated 3.3 percent of its home mortgage loans, by number, to moderate-income borrowers, which falls

below aggregate data by 8.0 percentage points, reflective of poor performance. Examiners did consider the 14.5 percent of families live below poverty level which restricts lending opportunities; however, given the overall levels examiners determined TSB demonstrated a poor record regarding its distribution of home mortgage loans.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	29.6	4.0	1	1.6	116	0.3
Moderate	17.8	11.3	2	3.3	381	1.1
Middle	16.2	16.0	2	3.3	361	1.1
Upper	36.5	54.6	52	85.2	30,878	92.2
Not Available	0.0	14.2	4	6.6	1,750	5.2
Total	100.0	100.0	61	100.0	33,486	100.0

*Source: 2015 ACS Census; 1/1/2017 - 12/31/2017 Bank Data
Due to rounding, totals may not equal 100.0*

Geographic Distribution

The distribution of loans among the various geographies reflects reasonable performance. The excellent small business lending hampered by the reasonable home mortgage lending in the assessment area supports this conclusion. Examiners considered the loan product types reviewed relative to the available comparative data and any performance context issues. They focused on the percentages of the number of loans in low- and moderate-income geographies when arriving at this conclusion. This factor only considered loans granted inside the bank’s assessment areas.

Small Business Loans

The geographic distribution of small business loans reflects excellent dispersion throughout the assessment area. The excellent level of lending within moderate-income census tracts primarily supports this conclusion. The analysis focused on the bank’s loan number percentage in low- and moderate-income census tracts relative to the 2018 D&B data when arriving at this conclusion.

The table below shows the geographic distribution of the bank’s small business loans as compared to 2018 D&B data. TSB originated only two small business loans within its assessment area’s low-income census tracts, which falls below the D&B data by 4.4 percentage points, reflecting reasonable performance. However, the bank originated 20 small business loans within its assessment area’s moderate-income tracts exceeding D&B data by 21.2 percentage points, reflecting excellent performance. Given the ratios relative levels, examiners determined the overall level of lending reflects excellent performance.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	8.8	2	4.4	1,150	8.4
Moderate	23.2	20	44.4	5,194	37.8
Middle	26.1	6	13.3	2,100	15.3
Upper	40.3	11	24.4	3,598	26.2
Not Available	1.7	6	13.3	1,691	12.3
Totals	100.0	45	100.0	13,733	100.0

Source: D&B Data (2018); Bank Records (2018).
Due to rounding, totals may not equal 100.0

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the assessment area. Reasonable performance within moderate-income census tracts primarily supports this conclusion. The analysis focused on the bank's loan number percentage in low- and moderate-income census tracts relative to the aggregate data when arriving at this conclusion.

As shown in the table below, the bank did not originate any loans to low-income borrowers, which falls below the aggregate data figure by 7.8 percentage points, reflective of poor performance. Within moderate-income census tracts the bank originated 23.0 percent of its home mortgage loans, exceeding aggregate performance by 2.4 percentage points. This level of lending falls in line with both the aggregate data and demographic data, and is reflective of reasonable performance. Focusing on the overall levels of the bank's percentages and lending opportunities, the geographic distribution of home mortgage loans reflects reasonable performance.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	5.9	7.8	0	0.0	0	0.0
Moderate	26.1	20.6	14	23.0	5,555	16.6
Middle	25.3	27.1	13	21.3	6,018	18.0
Upper	42.3	43.9	34	55.7	21,913	65.4
Not Available	0.4	0.6	0	0.0	0	0.0
Totals	100.0	100.0	61	100.0	33,486	100.0

Source: 2015 ACS Census; 1/1/2017 - 12/31/2017 Bank Data
Due to rounding, totals may not equal 100.0

Response to Complaints

The bank did not receive any CRA-related complaints since last evaluation. Therefore, this factor did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Texas Security Bank demonstrated an outstanding overall record regarding the Community Development Test. Excellent records regarding the bank's lending and community development services, as well as its responsiveness to community development needs, without simply ignoring the other types of community development activities, primarily support this conclusion. The bank also demonstrated adequate records regarding its community development investments.

Community Development Loans

The bank exhibited an excellent record regarding its community development (CD) lending. Excellent performance regarding the dollar volume of CD loans primarily supports this conclusion. Examiners evaluated the number and dollar volume of CD loans relative to the considerations noted for the Community Development Test when arriving at this conclusion.

The following table shows that since the last evaluation the bank granted 42 CD loans totaling \$118.7 million. This level equates to 37.9 percent of average total assets of \$313.2 million since the last evaluation and 46.9 percent of average net loans of \$253.0 million for the same timeframe. The current figures reflect excellent performance.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2013	0	0	0	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0	0	0	0
2015	0	0	0	0	0	0	0	0	0	0
2016	1	3,870	0	0	0	0	11	27,936	12	31,806
2017	1	640	0	0	0	0	10	27,371	11	28,011
2018	2	16,540	0	0	2	5,103	15	37,284	19	58,927
Total	4	21,050	0	0	2	5,103	36	92,591	42	118,744

Source: Bank Records (4/1/2013-1/28/2019)

The CD loans benefitted the following area:

- Dallas MD AA – 32 CD Loans totaling \$81,500,162.
- Broader Statewide Area – 10 CD Loans totaling \$37,244,300, out of which 8 are located within surrounding cities of TSB's AA and could benefit AA indirectly.

The following points provide examples of the bank's community development loans.

- **Economic Development:** The bank originated a \$1.5 million commercial loan. The purpose of the loan is to finance the renovation of a vacant commercial property in a moderate-income census tract. This loan attracts a new business to a moderate-income census tract and will create 18 new jobs.
- **Revitalization/Stabilization:** The bank originated a loan for \$2.3 million for the purchase and renovation of two commercial buildings in a moderate-income census tract. At the time of purchase, both buildings were in poor condition following their prior use for lead smelting and required cleanup by the Environmental Protection Agency (EPA). The loan will allow the borrower the ability to completely renovate the existing structures. This loan helps to revitalize a moderate-income census tract through the renovation of an unused, environmentally-unsafe commercial property. Additionally, the renovation will attract a new business to a moderate-income census tract.

Qualified Investments

TSB displayed an adequate record regarding its qualified investments (QIs). Adequate performance regarding the dollar volume of QIs primarily supports this conclusion. Examiners evaluated the number and dollar volume of QIs relative to the considerations noted for the Community Development Test when arriving at this conclusion.

The following table shows that the bank made 10 QIs totaling \$1.6 million, including 5 grants and donations totaling \$7,000. This level equates to 0.5 percent of average total assets of \$313.2 million and 6.4 percent of average securities of \$25.1 million since the last evaluation. Relative to the considerations noted for the Community Development Test, the current figures reflect adequate performance.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2013	0	0	0	0	0	0	3	825	3	825
2014	0	0	0	0	0	0	0	0	0	0
2015	0	0	0	0	0	0	0	0	0	0
2016	0	0	0	0	1	500	0	0	1	500
2017	0	0	0	0	0	0	0	0	0	0
2018	0	0	1	249	0	0	0	0	1	249
Subtotal	0	0	1	249	1	500	3	825	5	1,574
Qualified Grants & Donations	0	0	3	3	0	0	2	4	5	7
Total	0	0	4	252	1	500	5	829	10	1,581

Source: Bank Records (4/1/2013-1/28/2019)

The CD investments benefitted the following areas:

- Dallas MD AA – 10 QIs totaling \$1.6 million.

The following points provide examples of the bank’s qualified investments.

- **Community Service:** The bank invested \$249,000 in Certificates of Deposits at a minority-owned depository institution located in Dallas, Texas. The investment targets and provides funding to a financial institution serving low- and moderate-income individuals.
- **Economic Development:** In 2016, the bank invested \$500,000 in a CRA Qualified Investment Fund. The fund invests in selected growth-oriented small- and lower-middle-market businesses engaged in manufacturing, distributions and business-to-business services. It raises capital for a private investment fund under the Small Business Investment Company (SBIC) program of the Small Business Administration (SBA). The goal is to provide needed long-term subordinated debt and equity capital to growth-oriented small- and lower-middle-market businesses located primarily in the South Central U.S, including Texas.

Community Development Services

The bank established an excellent record of providing CD services. Excellent performance regarding the types of services primarily supports this conclusion. Examiners evaluated the types and availability of services relative to the considerations noted for the Community Development Test when arriving at this conclusion.

Types of Services

The bank showed excellent performance regarding the types of services that primarily benefit low- and moderate-income individuals. An excellent extent, or number, of community development services supports this conclusion.

The following table shows that the bank provided 71 CD services, which on average equates to 4.2 CD services per office, per year since the previous evaluation, reflective of excellent performance. In addition, examiners noted this level equates to 7.8 CD services per office, per year since the bank began collecting the data in 2016, further supporting the excellent level of services. During this time, the bank operated three full-service offices. The current level reflects excellent performance regarding the number of services offered.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2013	0	0	0	0	0
2014	0	0	0	0	0
2015	0	0	0	0	0
2016	0	3	11	1	15
2017	0	2	19	2	23
2018	0	6	25	2	33
Total	0	11	55	5	71

Source: Bank Records (4/1/2013-1/28/2019)

The service benefited the following area:

- Dallas MD AA – 71 CD services

The following points provide examples of the bank’s qualified services.

- ***Economic Development:*** Through the TSB Academy, the bank provided technical assistance to small businesses and businesses in low- and moderate-income geographic areas. The curriculum reflects the bank’s employees’ areas of expertise such as financial, human resources, information technology, and legal services. TSB Academy promotes economic growth throughout the Dallas Metroplex by supporting the local business owners.
- ***Community Service:*** A bank employee used his financial expertise to serve as a financial consultant for the Cristo Rey High School in Dallas, Texas. This model school is exclusively for students whose adjusted household income is at or below the Federal Poverty Line.

Availability of Services

The bank showed adequate performance regarding the availability of its services to low- and moderate-income individuals. The excellent availability of branches offset by the adequate alternative banking services supports this conclusion.

As discussed under the Description of Assessment Area, the bank maintains two of its three locations within moderate-income census tracts, reflective of excellent performance. Further, the bank operates lobby hours from 9:00 AM to 4:00 PM, Monday through Friday and the drive-thru operates from 9:00 AM to 5:00 PM, Monday through Friday. Although the bank does not operate any ATMS, they do offer online banking, mobile banking, and telephone banking, thereby increasing the availability of access to financial services.

The bank does not offer a small dollar program. However, the bank offers a small business loan program that consists of three specific loan products to meet the varied credit needs of businesses with gross annual revenues of \$1 million or less.

Given the bank’s excellent branch structure and the adequate alternative delivery systems, the availability of services to low- and moderate-income individuals or geographies reflects adequate performance.

Responsiveness to Community Development Needs

The institution achieved an excellent record of making its CD activities responsive to the assessment areas’ CD needs. An excellent level of activities directed to identified needs in the areas and the consideration of other qualitative factors support this conclusion. Examiners evaluated the dollar volume and number of total activities relative to the considerations noted for the Community Development Test when arriving at this conclusion.

The table below shows that the bank directed 77.6 percent of the total dollar volume of its efforts to activities that revitalize or stabilize qualifying geographies without ignoring opportunities relating to affordable housing and economic development within the areas. In addition, considering information provided by the community contact, and demographic and economic data, the primary needs of the bank’s assessment area include economic development, specifically small business lending. In response, TSB established an innovative program, through TSB Academy, that provided technical assistance to small businesses and businesses in low- and moderate-income geographic areas. As a result, 47.2 percent of the bank’s efforts, by number, qualified as economic development activities.

Community Development Activities							
Qualifying Category	Activity Type					Totals Per Category	
	Loans		Investments		Services		
	#	\$(000s)	#	\$(000s)	#	#	\$(000s)
Affordable Housing	4	21,050	0	0	0	4	21,050
Community Services	0	0	4	252	11	15	252
Economic Development	2	5,103	1	500	55	58	5,603
Revitalize or Stabilize	36	92,591	5	829	5	46	93,420
Totals Per Activity Type	42	118,744	10	1,581	71	123	120,325
<i>Source: Bank Records (4/1/2013-1/28/2019)</i>							

Examiners also considered other qualitative factors of the bank’s community development activities. These qualitative aspects include the institution’s leadership role, its special expertise or effort provided, or the activities’ particularly high levels of benefitting low- or moderate-income individuals or qualifying areas. Examiners identified a variety of aspects regarding the bank’s activities that support an overall high level of activity benefitting qualifying areas. Such variety includes: serving as financial consultant of a local school for students whose adjusted household income is at or below the Federal Poverty Line, investing in a minority-owned

institution that serves the local community, and generous lending to revitalize/stabilize the assessment area and surrounding cities.

Consequently, the bank's record reflects excellent performance in making CD activities responsive to the area's CD needs.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. Therefore, this consideration did not affect the institution's overall CRA rating.

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.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

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. Other family 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).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

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 the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings 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.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

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 a 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.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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 and less than 120 percent in the case of a 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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.

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.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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 a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.