



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Lone Star Bank

Person to be contacted regarding this report:	C. Mark Aderman
UST Sequence Number:	563
CPP Funds Received:	3,072,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	N/A
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	58324
City:	Houston
State:	Texas

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	We are a small, denovo bank with \$135m in total assets at year end. Due to our need to comply with regulatory capital restraints, we would have been forced to reduce lending. Receipt of CPP capital provided us the means to maintain lending levels.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Lending has been encouraged in owner-occupied real estate, both residential and commercial in nature, and in small business loans.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Partially as a result of increased capital, we were able to diversify our asset base by acquisition of holdings in municipal securities and investment-grade corporate bonds.

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	The CPP funds assisted in maintaining corporate strength while at the same time recognizing proper reserves for non-performing assets.
<input checked="" type="checkbox"/>	Reduce borrowings	Partly as a result of this capital infusion, the bank was able to reduce reliance on Federal Reserve Bank borrowings.
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Receipt of CPP funds was a significant aspect of our bank's response to the financial markets instability and the resultant general economic downturn. Partly because of the added strength to our institution, we have (1) taken initiatives to broaden our deposit mix and thereby diversify our liabilities; (2) issued a private placement memorandum to acquire additional private capital and thereby increase further our ability to withstand financial system dysfunctions; (3) maintained and increased a portfolio of investments to assist in stabilizing cash flows and maintaining liquidity; and (4) recognized problem loans with appropriate response -- up to and including chargeoffs, when necessary -- as we seek to comply with all regulatory mandates.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.