

PUBLIC DISCLOSURE

March 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Houston Community Bank, N.A.
Charter Number: 17020**

**11390 Veterans Memorial Drive
Houston, Texas 77067**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza, 500 North Akard
Dallas, Texas 75201-3394**

NOTE: 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.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **Houston Community Bank, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 15, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory**”.

Houston Community Bank, N.A. has a *satisfactory* record of meeting credit needs within the community. The bank meets or exceeds the factors considered to assign the rating as evidenced by:

- ! A reasonable distribution of loan originations to borrowers of different income levels and businesses of different sizes:
- ! A reasonable geographic distribution of loan originations within the assessment area;
- ! A loan-to-deposit ratio that meets the standards for satisfactory performance; and,
- ! A majority of the loan originations within the bank’s assessment area that exceeds the standards for satisfactory performance.

The following table indicates the performance level of **Houston Community Bank, N.A.** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>HOUSTON COMMUNITY BANK N.A.</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Houston Community Bank, N.A. is an \$82 million institution serving its customers through one main location and an ATM in the drive-in facility. The main office is located in Houston, Texas, and there is one branch in Humble, Texas. The branch opened in January of 1998. To help meet the credit needs of its community, the bank offers general loan products for consumers and small businesses. Total loans at December 31, 1998 were \$54 million and represented 66% of assets. A significant portion of the bank's lending is in indirect auto dealer loans to individuals and loans to dealers. At December 31, 1998, the indirect portfolio was approximately \$11.1 million or 20% of loans. In addition, the bank has more than thirty small wholesale/retail auto dealers with floor plan and draft lines totaling about \$13 million. Overall, lending activity is in the following categories: loans to individuals (37%), commercial and industrial (32%), one - four family residential property (21%), commercial real estate (8%), and other loans (2%).

The bank does not have any legal, financial, or other factors that impede the ability to help meet the credit needs in its assessment area. The evaluation period for this Performance Evaluation is from the prior CRA examination date of February 28, 1996 through March 15, 1999. At the prior examination, the bank was assigned a rating of "outstanding."

The bank offers a variety of deposit accounts and other banking services including special checking accounts for commercial, personal, and senior needs. The bank offers a basic checking account with a low minimum opening balance and a low monthly service charge. Also, the bank participates in the Houston Credit Coalition's credit training program. Officers refer applicants when appropriate, and the bank participates in the graduate program by offering to consider program graduates for loans.

DESCRIPTION OF HOUSTON COMMUNITY BANK ASSESSMENT AREA

The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Both the main and branch banks are located in the Houston Metropolitan Statistical Area (MSA). Although the MSA is geographically large and has a population in excess of three million, it was chosen as the assessment area based on a willingness to lend anywhere within the MSA. In addition, officers work with auto dealers from all areas of the Houston MSA, and management is attempting to develop a relationship with several auto dealers in areas of the MSA not close to the main or branch location.

The assessment area includes six hundred ninety-seven census tracts in six counties. It includes tracts in Chambers (6), Fort Bend (49), Harris (582), Liberty (13), Montgomery (39), and Waller Counties (8). The tracts have the following characteristics: seventy-seven low income (11%), two hundred & four moderate income (29%), two hundred & sixteen middle income (31%), and one hundred, eighty-four upper income tracts (26%). Sixteen or 2% of the tracts are NA indicating no residents in those tracts. The income levels and percentage of families within the assessment area are low (23%), moderate (17%), middle (20%), and upper (40%). Approximately 6% of the families live below the established poverty level. The average of the Metropolitan Statistical Area (MSA)/Non-MSA Census Median Family Income was \$36,886 as of 1990. The updated MSA Median Family Income for 1998 is \$50,400.

Houston Community Bank, N.A. is subject to intense competition from a number of non-bank financial entities, branches of regional and multinational corporations, and other financial institutions. For example, the Houston MSA has seventy-three financial institutions. In addition, the MSA has numerous nonfinancial institution entities that compete with financial institutions for deposits and loans.

We contacted a local chamber of commerce representative during our examination to determine the credit needs of the community and performance of the bank. We found the bank's assessment area is experiencing significant growth in both the business and residential sectors. The growth is expected to continue. A significant factor is the proximity to interstate access and the George Bush Intercontinental Airport. Another is the close proximity to major employers in Houston, Texas. Major credit needs are large commercial, residential real estate, and small business loans. Our community contact did not reveal any unaddressed credit needs.

According to the 1990 census, the assessment area has approximately 1.4 million housing units with about 65% being one - four family units and 30% multi-family units. Mobile homes or trailers account for 4%, and boarded up units comprise the remaining 1%. Owner occupied units are less than half of the total housing units at 48%. The median housing value is \$74 thousand and the median monthly gross rent is \$418. Business demographic data shows at least 143 thousand businesses in the Houston MSA with a majority (73%) having sales of less than \$1 million. However, the Houston MSA has numerous large companies competing in global and regional markets as well.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Houston Community Bank, N.A. actively attempts to meet the credit needs of its assessment area. The loan-to-deposit ratio meets the standards for satisfactory performance. It has averaged 70% for the twelve quarters since the bank's prior CRA examination dated February 28, 1996. The average loan-to-deposit ratio is above a peer group average of fifty-five banks in the Houston MSA with less than \$250 million in assets. And, the ratio is similar to the ratios of a peer group of national banks of about the same asset size in metropolitan areas. Table 1 shows the bank's ratios and a comparison to the two peer groups for the five most recent quarters:

Table 1

For the Quarter Ending	Houston Community Bank Loan to Deposit Ratio	Houston MSA Loan to Deposit Ratio	National Peer Group Loan to Deposit Ratio
December 31, 1997	69.88%	61.08%	69.00%
March 31, 1998	62.86%	59.31%	69.15%
June 30, 1998	64.68%	59.35%	69.39%
September 30, 1998	66.39%	58.20%	69.42%
December 31, 1998	69.56%	57.42%	68.54%
Recent Five Quarter Average Loan-to-Deposit Ratio	66.67%	59.27%	69.10%

The decline in the loan-to-deposit ratio in the five most recent quarters since the prior CRA exam is attributable to the opening of a branch location in Humble, Texas in January of 1998.

Lending in The Assessment Area

The bank's level of lending in the assessment area exceeds the standards for satisfactory performance. We selected a sample of loan originations from 1998 and 1999 to determine the number and dollar volume of loans inside and outside the assessment area. We used a sample of indirect auto dealer loans and commercial loans. We also reviewed all of the mortgages and home improvement loans approved in 1998 from the bank's Home Mortgage Disclosure Act Loan Application Register. The following table summarizes the results of that analysis:

Table 2

LOANS IN THE BANK'S ASSESSMENT AREA	INSIDE AREA	OUTSIDE AREA	TOTAL
Number of Loans	110	10	120
Percentage of Number of Loans	92%	8%	100%
Dollar Amount of Loans	\$5.4 Million	\$.3 Million	\$5.7 Million
Percentage of Dollar Amount	95%	5%	100%

Lending to Borrowers of Different Incomes And to Businesses of Different Sizes

The bank's lending meets the standards for satisfactory performance. A significant portion of the bank's consumer portfolio is in indirect auto dealer loans. We selected a sample of thirty loans from this group that were made in October, November, and December of 1998 to review. All of these loans were in excess of \$10 thousand (sample 1). As an additional indirect auto dealer sample, we reviewed all approved loans from March of 1999 for vehicle sales that are usually less than \$10 thousand. This was a sample of eleven loans (sample 2). All mortgage and home improvement loans in the sample originated in 1998. The home mortgage loans were originated by the bank. The home improvement loans are mostly indirect dealer loans, and management estimates they account for 80% of the home improvement loans. The bank has had a long-term working relationship with three vendors providing home improvement services. And, most of the home improvement loans were from a vendor tending to specialize in higher dollar home improvements such as room additions. Home improvement loans have been limited in recent periods. Individuals that have traditionally financed smaller amounts are now paying for the improvements with credit cards. Home equity lending in Texas has also affected the bank's origination of small home improvement loans.

The following table illustrates the numbers of loans to each category of individuals in our sample:

Table 3

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS BY NUMBER OF LOANS										
Income of Families	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Area Demographic Characteristics	23%		17%		20%		40%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
Indirect Auto Loans Sample 1	2	7%	8	27%	5	16%	15	50%	30	100%
Indirect Auto Loans Sample 2	8	73%	2	18%	1	9%	0	0%	11	100%
Home Mortgage	3	23%	2	15%	3	23%	5	39%	13	100%
Home Improvement	2	5%	6	16%	11	28%	20	51%	39	100%
Total	15	16%	18	19%	20	22%	40	43%	93	100%

In addition to the number of loans, we also reviewed the dollar amount of loans to each category of income levels. Higher income levels tended to have larger dollar loan amounts and affect the percentages. The sample revealed a reasonable level of lending in dollar amounts to all income levels. Our sample revealed the following information:

Table 4

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS BY DOLLAR AMOUNT OF LOANS IN THOUSANDS										
Income of Families	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Area Demographic Characteristics	23%		17%		20%		40%		100%	
Loan Types	\$	%	\$	%	\$	%	\$	%	\$	%
Indirect Auto Loans Sample 1	22	4%	114	20%	94	17%	327	59%	557	100%
Indirect Auto Loans Sample 2	57	70%	17	21%	7	9%	0	0%	81	100%
Home Mortgage	88	8%	80	7%	219	20%	719	65%	1,106	100%
Home Improvement	20	6%	48	14%	77	22%	203	58%	348	100%
Total	187	9%	259	12%	397	19%	1,249	60%	2,092	100%

Small Business Loan Originations

We found the bank's lending to commercial customers was reasonable. In addition to loans to individuals, we reviewed a sample of the bank's 1998 originations to commercial customers. We selected a sample of twenty-seven loan relationships to new and existing borrowers totaling \$3.6 million in 1998. The size of the loans ranged from \$2.5 thousand to the largest of \$1.3 million. Nineteen of the loans were for less than \$100 thousand. The average loan size in the sample was \$135 thousand. In the Houston MSA, businesses with less than \$1 million in gross receipts were 73% of the total. Our lending sample showed 56% (15 of 27) of the originations were to businesses with less than \$1 million in gross receipts. The number of businesses with over \$1 million in gross receipts is attributable to a concentration in auto dealers. Four of the originations were to dealers with gross receipts over \$1 million. The size of the dealer loans ranged from \$15 thousand to \$1.3 million.

Geographic Distribution of Loans

The geographic distribution of loans is reasonable and meets the standards for satisfactory performance. The sample reflects lending in all income geographies. The Houston MSA has owner occupied housing of 28% in low income tracts, 38% in moderate income tracts, and 49% in middle income tracts. Upper income tracts have 62% owner occupied housing. Our sample disclosed that the bank made three mortgage loans to low income individuals, but they did not live in low income census tracts. Two were in moderate income, and one was in an upper income tract. We found a similar situation with home improvement loans. The approved low income borrowers did not reside in low income census tracts. Table 5 summarizes loan originations by the number of loans that were within the bank’s assessment area:

Table 5

GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Area Demographic Characteristics Count	11%		29%		31%		27%		100%	
	77		204		216		184		(16 Tracts or 2% are NA) 697	
	#	%	#	%	#	%	#	%	#	%
Loan Types										
Indirect Auto Loans Sample 1	1	4%	7	26%	11	41%	8	29%	27	100%
Indirect Auto Loans Sample 2	3	30%	3	30%	3	30%	1	10%	10	100%
Home Mortgage	0	0%	3	27%	3	27%	5	45%	11	100%
Home Improvement	0	0%	4	12%	11	31%	20	57%	35	100%
Total Loans	4	5%	17	20%	28	34%	34	41%	83	100%

We also reviewed the bank’s geographic distribution of loans by dollar amount of loans and found it to be reasonable. Higher income census tracts tended to have a larger

dollar loan amount, and this affects the percentages. The following table illustrates the results of our sample:

Table 6

GEOGRAPHIC DISTRIBUTION OF LOANS BY DOLLAR AMOUNT OF LOANS IN THOUSANDS										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Area Demographic Characteristics Count	11%		29%		31%		27%		100% (16 Tracts or 2% are NA) 697	
	77		204		216		184			
	\$	%	\$	%	\$	%	\$	%	\$	%
Loan Types										
Indirect Auto Loans Sample 1	25	5%	108	21%	215	41%	172	33%	520	100%
Indirect Auto Loans Sample 2	22	29%	31	40%	16	21%	8	10%	77	100%
Home Mortgage	0	0%	78	8%	219	24%	636	68%	933	100%
Home Improvement	0	0%	26	9%	104	34%	175	57%	305	100%
Total Loans	47	3%	243	13%	554	30%	991	54%	1,835	100%

Small Business Demographic Information

The bank’s distribution of small business loans is reasonable. The assessment area has approximately 103 thousand small businesses. Those in low income census tracts account for 7% of the total, and moderate income census tracts account for 28%. Middle income tracts have 31%, and small businesses in upper income tracts comprised the remainder of 34%. We used a sample of loans to businesses with less than \$1 million in gross receipts (15 of 27 commercial loans reviewed). The bank’s lending showed 13% of originations in low income tracts, 40% in moderate, and 20% in middle income tracts. The remaining 27% were in upper income tracts. The largest dollar

amount of loans was made in moderate income census tracts.

Responses to Complaints

During this evaluation period, the bank did not receive any consumer complaints regarding its CRA performance. However, the bank has a procedure in place to handle consumer complaints.

Record of Compliance with Antidiscrimination Laws

A Fair Lending review was performed at the same time as this CRA examination. Houston Community Bank, N.A. is in compliance with the provisions of antidiscrimination laws and regulations. We found no evidence of practices intended to discourage potential borrowers from applying for credit at this bank. In addition, we did not find any violations of the substantive provisions of the antidiscrimination laws and regulations. We reviewed home improvement loan originations in 1998 comparing denied black applicants to approved white applicants.