



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**April 20, 2004**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Southwestern National Bank  
Charter Number 23081**

**6901 Corporate Drive  
Houston, TX 77036**

**Comptroller of the Currency  
Assistant Deputy Comptroller - Houston  
1301 McKinney Street Suite 3410  
Houston, TX 77010**

**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.**

## **INSTITUTION'S CRA RATING: This institution is rated Outstanding.**

Southwestern National Bank (SWNB) is highly responsive to the credit needs of its community, including low- and moderate-income individuals and small businesses located in Harris County. The following factors support this conclusion:

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size and credit needs of the assessment area.
- A substantial majority of the bank's loans and lending-related activities are within the assessment area.
- Lending to small businesses exceeds the standard for satisfactory performance.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

SWNB is a \$153 million full service bank with two offices, headquartered in Houston, Texas. SWNB opened with one office, known as the Main Branch, located on Corporate Drive, in November 1997 and added a second office, known as the Midtown Branch, located on Fannin Street, in July of 2000. SWNB is a subsidiary of a two-tiered holding company. The bank is owned 100% by SWNB Bancorp, Inc., which is owned 100% by SWNB Nevada Corporation. SWNB does not have any other affiliates or subsidiaries.

Banking hours are reasonable and meet the needs of the community. The Main Branch is open from 9:00 AM to 4:00 PM, Monday through Thursday, 9:00 AM to 6:00 PM on Friday, and 9:00 AM to 1:00 PM on Saturday. The Midtown Branch, which offers the same banking hours on Friday and Saturday, operates until 5:00 PM, Monday through Thursday. Automated teller machines and drive-in services are available at each location.

SWNB is primarily a commercial lender, however officers actively solicit loans in all categories. At December 31, 2003, loans represented 78% of total assets. Composition of the loan portfolio is detailed in the following table.

<b>LOAN PORTFOLIO COMPOSITION AS OF DECEMBER 31, 2003</b>		
<b>LOAN CATEGORY</b>	<b>\$(000)</b>	<b>%</b>
Commercial Real Estate	72,390	61.18
Commercial and Industrial	23,421	19.79
Multifamily Real Estate	7,612	6.43
1-4 Family Real Estate	6,512	5.50
Construction/Land Development	6,000	5.07
Consumer	2,336	1.98
Other	54	.05
<b>TOTALS</b>	<b>118,325</b>	<b>100</b>

In addition to a variety of loan products, SWNB offers a myriad of deposit products including business, personal, low-cost, and money market checking accounts, savings accounts, individual retirement accounts, and certificates of deposit. In addition, the bank offers a wide range of banking services in several languages, including, but not limited to: Mandarin, Cantonese, Vietnamese, Japanese, Spanish, and English. There are no financial or legal impediments that prevent SWNB from meeting the credit needs of the community.

The April 1999 CRA examination resulted in a satisfactory rating.

## **DESCRIPTION OF HARRIS COUNTY**

SWNB has designated Harris County, Texas as its assessment area. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Harris County, the third largest county in the United States, boasts a population of over 3.4 million residents and covers 1,778 square miles. According to 2000 U.S. Census information, Harris County experienced a 21% increase in population between 1990 and 2000. The Houston Metropolitan Statistical Area, which encompasses ten counties, has a total population of 4.67 million. Houston, with its population of 1.95 million, is the largest city in the county, the county seat, and the fourth largest city in the United States. Houston's city limits spread over 617 square miles, while greater Houston covers 8,778 square miles. Houston is home to the Houston Livestock Show and Rodeo, the largest rodeo in the world, attracting 1.8 million visitors annually. Houston is also home to the Johnson Space Center and the world-renowned Texas Medical Center. Located on 675 acres, the medical center houses 42 non-profit institutions and employs 52 thousand people. With an estimated 4.8 million patients annually, the Texas Medical Center's estimated yearly economic impact on Houston's economy is \$13 billion. Also, Houston is headquarters for 18 Fortune 500 companies, second only to New York City in Fortune 500 headquarters. Additionally, more than five thousand energy related firms are located in the city that is considered by many as the "Energy Capital" of the world. The Port of Houston, a \$15 billion complex, ranks number one in the nation in foreign tonnage and second in total tonnage. Major employers include Continental Airlines, AdminiStaff, Halliburton, Wal-Mart Stores, ExxonMobil, Kroger Company, Memorial Hermann Healthcare System, and The University of Texas Medical Branch, all with more than 13 thousand employees. Houston has the additional distinction of being one of only six U.S. cities with resident professional companies in the four major performing arts, including ballet, opera, theater, and symphony. The city's population is diverse with 39.8% Hispanic, 29.1% Caucasian, 24.3% African-American, and 5.9% Asian. In addition, over 90 languages are spoken throughout the area, and Consulates representing approximately 78 countries call Houston home.

The county has 65 low-income census tracts, 223 moderate-income census tracts, 178 middle-income census tracts, 176 upper-income census tracts, and 7 non-designated tracts. There are a total of 1,298 million housing units including 667 thousand owner occupied single-family housing units and 599 thousand single-family rental housing units. The median value of a single-family residence is \$101 thousand, and the median family income is \$51,674. The 6.4% unemployment rate as of November 2003 is a slight increase from the 2002 annual rate of 6.1%. The unemployment rate in

the county seat of Houston is higher at 7.6% at November 2003 and 7.2% for 2002. With a multitude of financial institutions operating in Harris County, competition for financial services is intense.

During this examination, we contacted a local community leader to inquire about the economic conditions and credit needs. The contact was not aware of any credit needs that have not been addressed. Additionally, the contact spoke highly of all financial institutions operating in the area.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review focused on the bank’s primary loan products, commercial real estate loans and commercial/industrial loans. We sampled a minimum of 20 loans for each product line. All loans sampled for this analysis were originated in 2003. In addition to the sample, we analyzed all existing loans by origination amount, using geo-coding reports provided by management. These reports were used to supplement the findings of our analysis where the additional information would provide meaningful information. We used our sample to verify report accuracy and no discrepancies were noted. Based on our analysis, SWNB has demonstrated outstanding performance in meeting the credit needs of the assessment area, including low- and moderate-income individuals and small businesses.

### Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is more than reasonable given SWNB’s size and the credit needs of the assessment area. The average quarterly LTD ratio since the 1999 CRA examination was 86%. For comparison purposes, the LTD ratio for 27 banks of similar asset size, headquartered in Harris County, averaged 74% over the same period.

The following table presents the LTD ratio for the bank and for the most similarly sized banks in Harris County, as of December 31, 2003:

<b>Institution</b>	<b>Assets (\$000)</b>	<b>LTD</b>
<b>Southwestern National Bank</b>	<b>152,604</b>	<b>99.12%</b>
Houston Community Bank, N. A.	132,807	86.79%
Enterprise Bank	110,037	86.47%
American First National Bank	192,245	82.93%
Capital Bank	119,550	74.38%
Tradition Bank	166,308	73.85%
1st Choice Bank	197,208	72.41%
Crosby State Bank	154,189	59.88%

### Lending in Assessment Area

A substantial majority of the SWNB’s loans and lending-related activities are within the assessment area. We performed an analysis of lending patterns in the assessment area using internal reports provided by management. The reports detailed every active loan originated since the bank opened in

1997, including the four-digit census tract, origination amount, and current balance. As illustrated by the table below, 83% of all loans by number and 79% of loans by dollar amount are located within the assessment area. Based on our findings, the SWNB’s performance materially exceeds the standards for a satisfactory rating, and reflects an excellent record of meeting assessment area credit needs.

<b>Lending in Harris County</b>										
	Number of Loans					Dollars of Loans*				
	Inside		Outside		Total #	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
All Loans	575	83	119	17	694	126,000	79	33,000	21	159,000

Source: Loan trial balance.

\*Totals were calculated using loan origination amounts

### **Lending to Businesses of Different Sizes**

Given the demographics of the assessment area, the distribution of loans reflects excellent penetration among businesses of different sizes. SWNB’s lending to small businesses exceeds the standard for satisfactory performance. For this analysis, we sampled 20 commercial real estate and 20 commercial/industrial loans, for a total of 40 loans. As illustrated by the table below, the percentage of SWNB’s loans substantially exceeds the demographic percent of assessment area businesses reporting revenue of \$1 million or less, by dollar amount of loans as well as by number of loans.

<b>Borrower Distribution of Loans to Businesses in Harris County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	61.90%	6.31%	31.79%	100%
% of Bank Loans in AA by #	75.00%	25.00%	0%	100%
% of Bank Loans in AA by \$	71.92%	28.08%	0%	100%

Source: Loan sample; Dunn & Bradstreet data.

Additionally, we noted that five of the loans we sampled were to start-up businesses. SWNB’s consideration of the small business borrower, and desire to aid in the birth of a new business, reflects positively on their commitment to the credit needs of the community.

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. Our analysis of each loan type is presented in the table on the following page. As the table illustrates, SWNB is lending to businesses in all census tracts, and lending in low- and moderate-income census tracts significantly exceeds the assessment area demographics.

<b>Geographic Distribution of Loans to Businesses in Harris County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Real Estate Loans	5.84%	20.00%	27.94%	40.00%	25.83%	35.00%	40.08%	5.00%
Commercial Loans	5.84%	25.00%	27.94%	45.00%	25.83%	10.00%	40.08%	20.00%

Source: Loan sample; 2000 U.S. Census data.

In addition to our sample, we analyzed all existing loans, based on information provided by the bank, which has geo-coded all loans on the trial balance. To complete this analysis, we used origination amounts. The table reflects the geographic distribution of all of SWNB's loans in Harris County.

<b>Geographic Distribution of All Loans in Harris County</b>								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of AA Census Tracts	% of Number of Loans	% of AA Census Tracts	% of Number of Loans	% of AA Census Tracts	% of Number of Loans	% of AA Census Tracts	% of Number of Loans
All Loans	10%	14%	34%	40%	28%	28%	27%	18%

Source: Loan trial balance; 2000 U.S. Census data

\*1% of the tracts in the assessment area are not characterized by income.

Also illustrated by the above table, SWNB is lending in census tracts of all income levels, and the bank's percentage of lending in low- and moderate-income census tracts exceeds the area demographics.

In summary, the geographic distribution of all loans within the assessment area exceeds the standard for satisfactory performance considering the demographics of Harris County, especially in low- and moderate-income tracts.

### **Responses to Complaints**

SWNB has not received any complaints about its performance in helping to meet the assessment area's needs during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

An analysis of five years of public comments, consumer complaint information, and applicable

Home Mortgage Disclosure Act information was performed according to the Comptroller of the Currency's risk based fair lending approach. Based on its analysis of information, the Comptroller of the Currency decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1999. That examination did not find any instances of discrimination or disparate treatment.