



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

August 23, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas Community Bank, National Association  
Charter Number: 24357

16610 I-45  
The Woodlands, TX 77384-0000

Office of the Comptroller of the Currency

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**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 Satisfactory**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Texas Community Bank, N.A. (TCB) has a satisfactory record of meeting community credit needs. This is based on the following:

- The loan-to-deposit ratio exceeds the standards for satisfactory performance.
- Lending in the Bank's assessment area (AA) meets the standard of satisfactory performance
- The borrower distribution of loans meets the standard for satisfactory performance.
- The geographic distribution of loans meets the standard for satisfactory performance
- The Community Development Test is Satisfactory and demonstrates appropriate responsiveness to the needs and opportunities in the AA.

## **Scope of Examination**

This Performance Evaluation (PE) assesses TCB's record of meeting the credit needs of the communities in which it operates. We evaluated TCB under the Intermediate Small Bank performance criteria. The evaluation assesses TCB's performance focusing primarily on five performance criteria: (i) the loan-to-deposit ratio; (ii) lending in the assessment area; (iii) lending to borrowers of different incomes and to businesses of different sizes; (iv) geographic distribution of loans; and (v) responses to CRA related complaints.

Our conclusion of TCB's lending performance are based on the primary loan product of loans to businesses and residential real estate loans for the years 2007, 2008, 2009 and 2010. The evaluation period for the Community Development Test was from the date of the last evaluation of February 14, 2005 through the first day of this examination date of August 23, 2010.

For residential real estate loans, management collected reliable gross income and census tract location data for all loans as required by the Home Mortgage Disclosure Act. For the gross revenue distribution and geographic distribution of loans to businesses, we selected a statistically valid sample of 20 loans. The data was validated during the data integrity examination that was conducted in May 2010.

## **Description of Institution**

Texas Community Bank, N.A. is a full service community bank headquartered in The Woodlands, Texas in Montgomery County. As of June 30, 2010, TCB had total assets of \$429 million, total loans of \$360 million, total deposits of \$378 million and a Tier One Leverage Capital ratio of 8.9 percent. The primary lending focus is in commercial business lending. Commercial real estate and commercial loans are approximately 70.5 percent of the loan portfolio. Residential real estate lending is 26 percent and consumer lending is 3 percent. Agriculture loans are less than 1 percent.

The bank was chartered September 10, 2002 and is wholly owned by TCB Holding Company. There are six locations in Harris and Montgomery counties. The main location is in the Woodlands, two locations are in Houston, one in Conroe and two in Tomball. All locations, except for Tomball, are located in upper-income census tracts. The Tomball locations are in middle-income census tracts.

The bank offers traditional deposit products and services. All of the locations have Automated Teller Machines. The Woodlands, Conroe and one of the Tomball locations have a drive-thru. TCB also provides 24-hour internet banking and telephone banking services.

TCB was rated Satisfactory at its last CRA examination dated February 14, 2005.

## **Description of Assessment Area(S)**

TCB's AA includes all census tracts in the contiguous Texas counties of Harris and Montgomery. The bank has six branch locations including the main office. Four of the branches are located in Harris County and two are located in Montgomery County. Both counties are located in the Houston-Sugarland-Baytown MSA. The main office location in the southern part of Montgomery County can satisfactorily service a portion of Harris County.

The AA has a total of 696 census tracts (CTs) of which 64 or 9 percent are low-income; 232 or 33 percent are moderate-income; 194 or 29 percent are middle-income; 198 or 28 percent are upper-income; and 8 or 1 percent are without an income designation. The entire AA has a population over 4 million persons with 1.4 million housing units of which 748 thousand are owner-occupied units and 561 thousand are rental housing units. The median value of a single-family residence is \$109 thousand and the weighted average of the HUD 2010 updated MSA median family income is \$65,100. The weighted average monthly gross rent is \$608.

### **Harris County**

Harris County is the third largest county in the United States with a population of more than 3.9 million. The county has a land area of 1,788 square miles. Houston, the county seat, is the largest city in the county and the fourth largest city in the United States. Houston has a population of more than 2 million people and is the economic center of the Houston-Sugar Land-Baytown MSA. Houston continues to be the hub for major U.S. energy firms in every segment, including exploration, production, oil field

service and supply, and development. Houston is also a global leader in the chemical industry, with nearly 40 percent of the nation's capacity for producing basic chemicals used by downstream chemical operations. Nearly every major chemical company operates a plant near Houston including BASF AG; Bayer Corp; Chevron Phillips Chemical Co; E. I. du Pont de Nemours Co; ExxonMobil Chemical Co; and Shell Chemical LP. While Houston remains a major refinery center, the business base has been diversified so that the economy does not follow the drastic rise and fall of oil prices. Also, Houston has a strong presence in financial services, health care, computer software, electronics, engineering, and nanotechnology.

According to U. S. Census Bureau information, Harris County has 667 thousand owner-occupied single-family housing units and 538 thousand rental housing units. The median value of a single-family residence is \$131 thousand. The county has 63 low-income CTs; 223 moderate-income CTs; 178 middle-income CTs; and 178 upper-income CTs. In addition, there are 7 CTs without an income designation. The unemployment rate for Harris County as of November 2009 was 8.2 percent, similar to the state's overall rate of 8 percent for the same period.

Community contact information in Harris County indicates small business lending for new start-up are credit needs in the community. Also identified was funding to help existing businesses moving to the area.

### **Montgomery County**

Montgomery County is north of Harris County and is the fifteenth largest county in Texas. The county has one (1) low-income CT; 9 moderate-income CTs; 18 middle-income CTs; and 11 upper-income CTs. Montgomery County is the 36<sup>th</sup> fastest growing county in the U.S. according to recent U.S. Census Bureau estimates. The county includes the communities of Conroe, Montgomery, Magnolia, Willis, Cut and Shoot, Splendora, New Caney, Porter, The Woodlands, and Shenandoah. Montgomery County is known as the "Birthplace of the Lone Star Flag" and covers over 1,000 square miles.

According to the 2000 U.S. Census, Montgomery County had a population of approximately 297,000. The 2009 U.S. Census estimates indicate the current population is 447,000, which is a 50 percent growth rate in 9 years. Conroe is located 45 miles north of downtown Houston and is the county seat for Montgomery County. Conroe's economy has greatly diversified in the last twenty years with the growth of industries including manufacturing, retail, health care, biotechnology, construction, and tourism. Employment opportunities are largely centered in the trade and service sectors. According to the Bureau of Labor Statistics, Montgomery County's unemployment rate in November 2009 was 7.7 percent, slightly below the 8 percent average for Texas.

The Banking industry is very competitive in Montgomery County, particularly in The Woodlands. There are numerous branches of large multi-state national and regional financial institutions as well as local community banks competing for the small business

market. In addition, Montgomery County has a large credit union located in the Conroe area as well as mortgage and finance companies, and other financial institutions.

Community contact information in Montgomery County identified needs for additional affordable housing, permanent loan financing, and support of ongoing financial literacy program.

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Loan-to-Deposit Ratio

- TCB's average loan to deposit ratio exceeds the standards for satisfactory performance

The Bank's loan to deposit ratio averaged 98% over the 22 quarters since the last CRA examination. The loan-to-deposit ratio average of similarly situated financial institutions in the AA is 89% for the same period.

#### Lending in Assessment Area

- TCB's level of lending inside its AA meets the standard of satisfactory performance

Table 1 below shows a majority of the Bank's loans, both number and dollar, were originated inside the Bank's AA. During the evaluation period, TCB originated 195 of the 248 loans or 78.63% of the total number of loans and \$69,941 or 83.77% of the total dollar volume of loans within the AA.

Loan Type	Number of Loans				Total	Dollars of Loans				Total (000)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Res RE Purchase	107	73.80	38	26.20	145	\$28,584	75.38	\$9,336	24.62	\$37,920
Res RE Refinance	45	81.82	10	18.18	55	\$19,915	85.57	\$3,358	14.43	\$23,273
Res RE Improvement	23	82.14	5	17.86	28	\$9,348	91.59	\$858	8.41	\$10,206
Business	20	100.00	0	0	20	\$12,094	100.00	0	0	\$12,094
Totals	195	78.63	53	21.37	248	\$69,941	83.77	\$13,552	16.23	\$83,493

Source: Data reported under HMDA; Sample of loans

#### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

- TCB’s lending to borrowers of different incomes and businesses of different sizes in the AA meets the standard of satisfactory performance. This conclusion is based primarily on the bank’s performance relative to small business lending.

**Home Mortgage Loans**

TCB’s borrower distribution of home mortgage loans reflects poor penetration to low- and moderate-income borrowers.

Table 2A shows TCB had no penetration to low-and-moderate borrowers for home improvement and refinancing loans. However, the bank made 2.28% to low-income and 13.64% to moderate-income borrowers for home purchase loans. Home purchase loans represent 62% of the total HMDA reportable loans. The percentage of loans to low-and moderate-income borrowers is less than the percentage of AA families. Residential real estate lending, excluding residential construction, represents 18% of the loan portfolio. Therefore, very little weight was given to this product in the final rating.

We compared the bank’s loan originations for home purchases, home improvement, and home refinancing to the percentages of families in the AA based on the 2000 U. S. Census information. Originating loans for residential home loans to low-income borrowers is difficult considering the cost of homes and the poverty level (13%) in the AA.

Table 2A - Borrower Distribution of Residential Real Estate Loans in Harris and Montgomery County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	23.73	2.28	17.79	13.64	18.74	11.36	39.74	68.18
Home Improvement	23.73	0	17.79	0	18.74	8.33	39.74	58.33
Home Refinancing	23.73	0	17.79	0	18.74	6.67	39.74	80.00

Source: Data reported under HMDA; U. S. Census data. 4.54% of home purchase applicants, 33.34% of home improvement applicants and 13.33% home refinance applicants did not report income.

**Small Business Loans**

TCB’s borrower distribution of loans to businesses of different sizes meets the standard for satisfactory performance. The number of loans originated to businesses with annual gross revenues equal to or less than \$1 million is good. All business loans originated or purchased during the evaluation period were used in the analysis with a focus on small business lending. Small businesses are defined in terms of having revenues or sales of \$1 million or less.

Table 2B shows the number of loans to small businesses represented 60% and was near the demographic measure of 74.83%. The dollar volume extended was lower for small businesses and is normal when considering that businesses with revenues exceeding \$1 million typically have larger dollar volumes extended. In arriving at the

rating, more weight was given to the number of business loans originated versus the dollar amount extended.

<b>Table 2B - Borrower Distribution of Loans to Businesses in Harris and Montgomery County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.83%	4.52%	20.65%	100%
% of Bank Loans in AA by #	60.00%	40.00%	0%	100%
% of Bank Loans in AA by \$	25.81%	74.19%	0%	100%

*Source: Data reported under HMDA; Dunn and Bradstreet data.*

### Geographic Distribution of Loans

- TCB’s geographic distribution of loans meets the standard for satisfactory performance. Our review did not reveal any conspicuous gaps in the AA.

### Home Mortgage Loans

TCB’s geographic distribution of home mortgage loans meets the standard of satisfactory performance.

Table 3A shows the Bank’s performance was good with home purchase loans exceeding the demographic measure of 3.55% for low-income geographies and near the demographic percentage of 24.97% for moderate-income tracts. TCB’s performance was poor with home improvement loans below the demographic measure, while TCB made no home improvement loans in low-income CTs and no home refinancing loans in low- and moderate-income CTs.

We compared the bank’s loan originations for home purchases, home improvement, and home refinancing to the percentages of owner occupied housing in the AA based on the 2000 U. S. Census information. Nine percent (9%) percent of the AA has low-income CTs with approximately 4% of the owner-occupied housing units indicating that these CTs are not predominately residential areas.

<b>Table 3A -Geographic Distribution of Residential Real Estate Loans in Harris and Montgomery County AA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper

Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	3.55	4.44	24.97	22.22	30.44	15.56	41.03	57.78
Home Improvement	3.55	0	24.97	8.33	30.44	41.67	41.03	50.00
Home Refinancing	3.55	0	24.97	0	30.44	13.33	41.03	86.67

Source: data reported under HMD, U.S. Census data

### Small Business Loans

Table 3B shows the geographic distribution of the Bank’s business loans meets the standard for satisfactory performance with good penetration of the low-income CTs near the demographic measure of 5.57%. The percentage of loans originated in moderate-income CTs is below the percentage of businesses in the AA, but adequate given the percentage of businesses located in the CTs.

Table 3B - Geographic Distribution of Loans to Businesses in Harris and Montgomery County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business Loans	5.57	5.26	26.37	15.79	27.10	15.79	40.29	63.16

Source: loan samples, Dunn and Bradstreet data

### Responses to Complaints

The bank did not have any CRA related complaints during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

- TCB's performance under the Community Development Test is responsive to the needs and opportunities in the AA through CD lending, investments and services and is Satisfactory.

#### Community Development Loans

The level of community development loans made by TCB during this evaluation period is Satisfactory. Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. During the evaluation period, officers originated fifteen (15) CRA qualifying loans totaling \$5.6 million in the Bank's AA. One eligible CD loan totaling \$438,861 was made outside the Bank's AA. No weight was given to this loan as it did not benefit the needs of the Bank's AA. The following list supplies a summary of the qualified community development loans:



- Ten (10) separate loans in the amount of \$221,000 each to provide rental property to low-and moderate-income families including tenants under the government sponsored Section 8 program
- \$98,496 to provide rental property to low-and moderate-income families including tenants under the government sponsored Section 8 program
- \$1,039,200 to provide affordable rental housing at below fair market rents
- \$1,039,200 to provide affordable rental housing at below fair market rents (Renewal)
- \$1,112,062 to promote economic development to small businesses in the area and to create one LMI employment opportunity.

#### Community Development Investments

Qualifying investments are investments, deposits, membership shares, or grants that have as their primary purpose community development as defined in the CRA regulation. The definition includes investments and contributions meeting the definition of community development. TCB has provided a nominal level of qualified investments totaling \$1,150 to organizations that provide community development service to low-and moderate income individuals in the Harris County AA. There were no qualified investments made in the Montgomery County AA. The qualified investments included a:

- \$150 Donation to an organization that supports health care for LMI families in the Harris County AA,
- \$1,000 Donation to a local organization that helps to empower LMI consumers through financial and homebuyer counseling and education in the Harris County AA, and

#### Community Development Services

##### **Responsiveness to Community Development Needs**

TCB provided three qualified community development services in the Harris County AA. There was no qualified community development service provided for the Montgomery County AA. In addition, there was no community development services provided for 2005 through 2008. Activities were:

- *Tomball Emergency Assistance Ministries (TEAM)*: The bank provided Counterfeit Training at a local nonprofit organization formed to help LMI persons with short term assistance in 2010.

- *YES Prep Public Schools*: Bank Officer provided financial expertise to this organization that exists to increase the number of low-income Houstonians who graduate from a four-year college in 2009.
- *Tomball Area Chamber of Commerce*: Bank Officer provided financial expertise to this organization in order for them to provide resources that foster relationships that empower small businesses

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

We found no evidence of illegal discrimination or other illegal credit practices.