



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 25, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Houston Community Bank National Association
Charter Number 17020

11390 Veterans Memorial Drive
Houston, TX 77067

Office of the Comptroller of the Currency

Houston Field Office
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Houston, TX. 77010-3031

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.

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

- The loan-to-deposit ratio is more than reasonable and exceeds the standards for satisfactory performance.
- A substantial majority of the loan originations are in the bank's assessment area (AA).
- The geographic distribution of loans reflects reasonable distribution in low- and moderate-income census tracts in the AA.
- The borrower distribution of loans reflects reasonable penetration among low- and moderate-income borrowers and small businesses.

SCOPE OF EXAMINATION

Our review was focused on the primary loan products of loans to businesses and loans to consumers, primarily auto purchase loans. We also reviewed a third primary product of owner-occupied residential real estate loan originations of home purchase, home improvement, and home refinance.

For residential real estate loans, management collected reliable gross income and census tract location data for all loans originated in 2007, 2008, and 2009 as required by the Home Mortgage Disclosure Act. There were a total of 229 owner-occupied loans originated in the AA.

For the gross revenue distribution and geographic distribution of loans to businesses, we selected a statistically valid sample of 20 loans. One of the 20 loans were not in the AA, and we expanded our original sample by one to ensure we reviewed a total of 20 loans in the AA. We used the same statistically valid sample method to select a sample of consumer loans. We selected 30 consumer loans, 26 were in the AA.

DESCRIPTION OF INSTITUTION

Houston Community Bank, N.A. (HCB) is a \$230 million full service community bank headquartered in Houston, Texas located in Harris County. The bank was chartered on June 6, 1981 and is wholly owned by Houston City Bancshares, Inc. HCB has a main location at 11390 Veterans Memorial Drive in Houston in a middle-income census tract (CT) and four full service branches. The branches are located in Humble, Sugar Land, Stafford, and Porter, Texas. The branch in Porter, Texas is the newest branch having opened on November 24, 2008. It is located in a moderate-income CT. Of the other three branches, one is in a middle-income CT. Two are in an upper-income CT. HCB offers the standard array of deposit and loan products and services to help meet

the credit needs of its community. The bank offers the traditional deposit products and services of a community bank. Banking hours are reasonable with lobby hours Monday through Saturday and drive through hours extended to 7 P.M. at three of the branches. HCB also provides 24-hour internet banking services to its customers.

There are no legal or financial impediments to the bank's ability to meet the credit and community development needs of its AA. The bank was rated Satisfactory at its last CRA examination dated July 26, 2004.

Please see the bank's CRA Public File for additional information.

DESCRIPTION OF ASSESSMENT AREA(S)

HCB has one AA that includes all three counties of Harris, Montgomery, and Fort Bend. The three counties are contiguous and within the Houston - Sugar Land - Baytown Metropolitan Statistical Area (MSA). These counties are the three largest and fastest growing counties in the Houston MSA. The area is highly competitive. Community banks compete not only with other community banks for the consumer and small business market, but they also compete with branches of the nation's largest banks. In 2009, the updated median family income for the Houston MSA was \$63,800.

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 is the largest city in the county, the county seat, 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 has the largest medical center in the world, the Texas Medical Center, 18 Fortune 500 companies, and more than five thousand energy related firms. The Port of Houston is the nation's largest in international tonnage and second in total tonnage. Houston is home to the Houston Livestock Show and Rodeo, the largest rodeo in the world attracting 1.8 million visitors per year. Major employers include Continental Airlines, Administaff, Halliburton, Wal-Mart Stores, Exxon Mobil, Kroger Company, Memorial Hermann Healthcare System, and The University of Texas Medical Branch, all with at least 13 thousand employees each. Houston is considered by many as the "Energy Capital" of the world.

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, 179 middle-income CTs, and 179 upper-income CTs. Also, there are 7 CTs without a 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.

Montgomery County

Montgomery County is north of Harris County and is the fifteenth largest county in Texas. It has 39 census tracts in total with one low-income census tract, nine moderate-income tracts, 18 middle-income tracts, and 11 upper-income tracts. Montgomery County is the 36th 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 census, Montgomery County had a population of approximately 293 thousand persons. The 2007 U.S. Census estimates the population was 412 thousand which is a 40 percent growth rate in seven years. Conroe is the county seat and is 45 miles north of downtown Houston. 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.

Financial services competition in Montgomery County, particularly in The Woodlands, is intense. 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 competitive credit union in the Conroe area as well as mortgage companies, finance companies, and other financial institutions.

Fort Bend County

HCB’s AA in Fort Bend includes the entire county. It has 58 CTs with only one CT designated as low-income. The AA has four moderate-income CTs. Middle-income CTs total 21, and the remaining 32 tracts are designated as upper-income CTs.

The AA is comprised of mostly upper- and middle-income families. Approximately 17 percent of the families are designated low-income, 14 percent are moderate-income, and the remaining 69 percent are middle- or upper-income. According to U.S. Census Bureau information, there are 25,753 owner occupied units and 8,156 rental occupied units. The weighted average median value of a single family residence is \$109,046, and the weighted average monthly gross rent is \$559.

The Fort Bend County economy is expanding. It is one of the fastest growing counties in the United States. The county had a population of 510 thousand as of the 2007 U.S. Census Bureau estimate with a growth rate since the 2000 Census of 44 percent. Economic activity in the area is diverse and includes school districts, healthcare, manufacturing, construction, and retail trade as the primary employers. According to the Bureau of Labor Statistics, unemployment in November 2009 was 8.1 percent, similar to the state average.

An OCC Community Affairs Officer completed a contact with a community leader in East Montgomery County where the bank's Porter branch is located. This contact stated that small businesses will need money to grow their businesses and to add inventory and equipment. The contact stated that currently funding seems to be available, but there is a lot of talk of tightening access to credit. Houston Community Bank officers originate a significant amount of loans to small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable and exceeds the standards for satisfactory performance. The bank's quarterly average since June 30, 2004 is 89.36 percent. We compared the bank's ratio to a peer group average of banks with less than \$500 million in assets for the same period. The bank's ratio exceeds the peer group average of 77.36 percent by 12.1 percent. In addition, we compared the bank's ratio to a peer group of banks in the AA of any asset size. This peer group's average was 83.11 percent. The bank's ratio exceeds this peer group by 6.25 percent.

Lending in Assessment Area

A substantial majority of the bank's lending activity is in the AA, and the overall level of lending in the AA exceeds the standards for satisfactory performance. As noted in the table below, approximately 91 percent of the number of loans and 86 percent of the dollar amount of loans were originated in the AA. The bank's performance is shown in the following table:

Table 1 - Lending in Harris, Montgomery, Ft Bend AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000)
	#	%	#	%		\$	%	\$	%	
Res RE Purchase	24	88.89	3	11.11	27	2,890	86.89	436	13.11	3,326
Res RE Refinance	14	82.35	3	17.65	17	1,610	66.34	817	33.66	2,427
Res RE Imprv	191	92.27	16	7.73	207	3,652	87.64	515	12.36	4,167
Business	20	95.24	1	4.76	21	3,078	98.87	35	1.13	3,113
Consumer	26	86.67	4	13.33	30	300	89.21	36	10.79	336
Totals	275	91.06	27	8.94	302	11,530	86.24	1,839	13.76	13,369

Source: Data reported under HMDA; Sample of loans.

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

The bank's loan originations to borrowers of different incomes and businesses of different sizes reflect a reasonable penetration in the AA.

Owner Occupied Residential Real Estate

Lending to borrowers for residential real estate loans reflects a reasonable penetration.

Although below the characteristics of the AAs, officers have originated loans to low- and moderate-income borrowers. In particular, originating loans to low-income borrowers is difficult considering the costs of homes in the AA. For lending to moderate-income borrowers for purchase and refinance, the bank's performance is near to the characteristics of the AA. The bank's performance is shown in the following table:

Table 2A - Borrower Distribution of Residential Real Estate Loans in Harris, Montgomery, Ft Bend 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
Purchase	22.68	4.17	17.33	16.67	18.67	25.00	41.32	54.16
Refinance	22.68	14.29	17.33	14.29	18.67	14.29	41.32	57.13
Home Imprv.	22.68	2.10	17.33	5.76	18.67	20.94	41.32	71.20

Source: Data reported under HMDA; U.S. Census data.

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses of different sizes. We compared the bank's performance to Dun & Bradstreet information as it pertained to the annual gross revenues of businesses in the AA. For businesses with annual gross revenues equal to or less than \$1 million, the number of loans originated is near to the characteristics of the AA. The dollar amount originated is below the characteristics, but considered adequate. The bank has a large number of mature businesses that have been bank customers since inception that have grown to have gross annual revenues in excess of \$1 million. These businesses have larger dollar borrowing requirements. The bank's performance is shown in the following table:

Table 2B - Borrower Distribution of Loans to Businesses in Harris, Montgomery, Ft Bend AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.41	5.11	26.48	100%
% of Bank Loans by #	55.00	45.00	0.00	100%
% of Bank Loans by \$	40.09	59.91	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Consumer Loans

The level of lending to consumers reflects reasonable penetration. In particular, the level of lending to moderate-income consumers exceeds the standards for satisfactory performance. The bank's performance is shown in the following table:

Table 2C - Borrower Distribution of Consumer Loans in Harris, Montgomery, Ft Bend AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22.74	15.39	16.96	26.92	18.15	19.23	42.15	30.77

Source: Loan sample; U.S. Census data. The table does not include information on 7.69% of the loans sampled, gross income was unavailable.

Geographic Distribution of Loans

The geographic distribution of loans shows reasonable dispersion. In addition, our review did not reveal any conspicuous gaps in lending in the AA.

Owner Occupied Residential Real Estate

The level of lending for owner-occupied residential real estate reflects reasonable dispersion. In particular, the bank's performance exceeds the characteristics of the AA for home purchase loans in low-income CTs and in home refinancing loans in moderate-income CTs. The bank's performance is shown in the following table:

Table 3A – Geographic Distribution of Residential Real Estate Loans in Harris, Montgomery, Ft Bend AA								
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
Purchase	3.23	4.17	22.84	16.67	30.35	29.17	43.58	49.99
Refinance	3.23	0.00	22.84	35.71	30.35	50.00	43.58	14.29
Home Imprv.	3.23	1.05	22.84	5.24	30.35	26.18	43.58	67.53

Source: Data reported under HMDA; U.S. Census data.

Business Loans

The geographic distribution of loans to businesses is reasonable. Although our sample review did not reveal any loans originated to businesses in low-income CTs, the AA has a low percentage of businesses located in these CTs, making it difficult to originate loans. The percentage of loans originated in moderate-income CTs is near to the characteristics of the AA. The bank's performance is shown in the following table:

Table 3B – Geographic Distribution of Loans to Businesses in Harris, Montgomery, Ft Bend AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Business Loans	5.36	0.00	25.08	20.00	26.78	40.00	42.16	40.00

Source: Loan sample; Dun & Bradstreet data. 0.62% of the businesses are located in NA census tracts.

Consumer Loans

The geographic distribution of loans to consumers is more than reasonable. Lending in low- and moderate-income CTs exceeds the characteristics of the AA and the standards for satisfactory performance. The bank’s performance is shown in the following table:

Table 3C – Geographic Distribution of Consumer Loans in Harris, Montgomery, Ft Bend AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	6.58	7.69	28.62	34.62	30.57	42.31	34.23	15.38

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

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.