



Comptroller of the Currency
Administrator of National Banks

Small Bank

PUBLIC DISCLOSURE

September 18, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Redstone Bank, N. A.
Charter Number 23686**

**109 North Post Oak Lane
Houston, Texas, 77024**

Comptroller of the Currency

**1301 McKinney Street, Suite 3750
Houston, Texas, 77010**

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 **Redstone Bank, N. A., Houston, Texas** as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of September 18, 2000. 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**.

Redstone Bank, N. A. has a Satisfactory record of meeting credit needs within the community. This rating is supported by the following:

- The loan-to-deposit ratio meets standards for satisfactory performance and the loan portfolio has increased steadily since the bank opened.
- A majority of loans have been originated within the assessment area.
- A reasonable volume of commercial loans has been made to small businesses and commercial lending represents the largest portion of lending activity.
- The distribution of loans to borrowers of different incomes reveals a good penetration of consumer loans to low-income individuals. Residential real estate loans indicate an under representation of loans to low- and moderate-income individuals.
- The geographic distribution of loans reveals that loans have been made in each income level, and the penetration of commercial loans in low- and moderate-income census tracts is adequate.

DESCRIPTION OF INSTITUTION

Redstone Bank, N. A. (Redstone Bank) is a newly chartered institution that opened in February of 1999, and is controlled by a multibank holding company, Redstone Financial, Inc. The bank is located in the upscale Galleria area of Houston. Total assets were \$25 million as of June 30, 2000. Management operates one location with lobby hours Monday through Friday. No automated teller machines (ATM) or motor bank facilities are currently operated. An affiliate bank's ATMs are available for customer use and management plans to add ATMs. A diverse choice of residential, commercial and consumer loan products are offered as well as retail and commercial deposit products. An Internet site provides online banking and information about products and services. A courier service is also offered to help serve customers throughout the assessment area. Loans compose a majority of the bank's assets. Commercial lending represents 50 percent of the loan portfolio. Residential real estate loans compose 15 percent, loans to individuals 26 percent, and construction loans represent 9 percent of the loan portfolio.

Redstone Bank has limited lending opportunities due to its low legal lending limit. To help meet commercial credit needs, large commercial loans have been made and the portions exceeding the lending limit were sold. The bank has 27 loan participations sold that total approximately \$9 million as of September 9, 2000.

This is the bank's first CRA evaluation.

DESCRIPTION OF HARRIS COUNTY

Redstone Bank's assessment area (AA) is Harris County. The city of Houston, Texas is located in Harris County and it is part of the Houston Metropolitan Statistical Area (MSA). The bank is located in census tract 421.00, an upper-income geography. The Houston MSA (#3360) has a population in excess of three million people. The AA has a population of about 2.8 million people, with 13 percent living below the established poverty level. Harris County contains 582 census tracts of which 73 are low-income, 179 are moderate-income, 169 are middle-income, 147 are upper-income and 14 have not been categorized into an income category. The income level for each geography was determined based on 1990 United States Census data and relied upon the median family income for the Houston MSA of \$36,886. The Housing and Urban Development (HUD)-updated Harris County MSA Median Family Income for 1999 was \$54,100. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate- income geographies.

Houston's economy is strong. Historically, the economy has relied on energy related industries. The energy sector is still a driving force in the economy being responsible for approximately

50 percent of the local economy. The following industries are also large components of the Houston economy: medical, technology, computer, aerospace, government, and services. The Port of Houston is the second largest port in The United States and one of the busiest ports in the world. Large area employers include Compaq Computer Corporation, The United States Postal Service, University of Texas-Medical, MD Anderson Hospital, Baylor School of Medicine, Chase Bank of Texas, Exxon, Texaco, NASA, and Continental Airlines.

Redstone Bank is subject to intense competition from a number of non-bank financial entities, branches of regional and multinational corporations, and branches of other financial institutions.

Interviews with community members familiar with credit needs in Houston revealed additional opportunities for banks in small business lending. They indicated Houston has a strong economy and area banks have generally made credit available.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

The level of lending activity is reasonable. Management actively attempts to meet the credit needs of its assessment area and has attained a reasonable loan-to-deposit ratio. The average loan-to-deposit ratio for the six quarters since the bank opened was 51.7 percent as of June 30, 2000.

Performance can be compared with other similar institutions operating in Houston. Eight similar banks were selected for comparison based on asset size, location, and loan portfolio mix. The average loan-to-deposit ratios for the similar institutions range from 35.1 percent to 69.8 percent for the period reviewed. Redstone Bank's ratio was only higher than one of the comparison banks, but was only slightly below the most similar bank, which had an average loan-to-deposit ratio of 57.5 percent for the same period.

Sold loan participations are not included in the loan-to-deposit ratio and reflect a strong willingness to extend credit. In addition, the loan portfolio has grown significantly each quarter since the bank opened. Gross loans were \$10,275,000 as of June 30, 2000 compared with \$966,000 on March 31, 1999, which was the first financial reporting date.

Lending in the Assessment Area

Performance meets standards for lending in the assessment area. A majority of loans were made within the defined assessment area, Harris County. All loans extended since the bank's opening were reviewed for this analysis. Since inception, 79 percent of the number and 78 percent of the dollar amount of loans were within the assessment area.

Borrower Income Distribution

Overall, performance for lending to borrowers of different incomes and businesses of different sizes is reasonable. Commercial lending represents the primary lending focus and accounts for a large portion of the loans originated and is weighted more heavily in analyzing the bank's performance for this criterion. Lending performance to small businesses is reasonable when compared with CRA aggregate data. Management needs to improve its penetration of loans to low- and moderate-income borrowers for residential real estate loans.

Lending to Individuals

Consumer lending is reasonable and residential real estate lending to persons of different incomes needs to improve.

To assess the distribution of loans to borrowers of different incomes, all loans made to individuals in the AA since the institution opened were reviewed. The table below displays the distribution for the 30 consumer loans and 13 residential real estate loans that have been originated, compared with the number of assessment area families in each income level. Income levels are based on the HUD-adjusted median family income for 1999, which was \$54,100 for Harris County.

Borrower Income Level	Consumer		Real Estate		Total		Percentage of AA Families
	Number	Amount	Number	Amount	Number	Amount	
Low	23.3%	0.3%	0.0%	0.0%	15.8%	0.1%	23.2
Moderate	3.3%	0.2%	7.1%	4.4%	4.6%	3.1%	16.8
Middle	6.7%	1.2%	0.0%	0.0%	4.6%	0.4%	20.1
Upper	66.7%	98.3%	92.9%	95.6%	75%	96.4%	39.9

The number of consumer loans to low-income individuals compares favorably with the AA demographic comparison. The penetration of consumer loans to moderate-income individuals and the penetrations of residential real estate loans to low- and moderate-income individuals are lower than the percentage of AA families in these income levels.

Small Businesses Loan Originations

An adequate amount of commercial loans have been made to small businesses. Loan penetration to small businesses is less than the percentage of small business in the AA but is similar to the performance of other local lenders.

Redstone Bank is primarily a commercial lender. All commercial loans in the AA that had gross annual sales of the borrower available were reviewed. Of the 38 commercial loans originated with business revenues available, 35 or 92 percent had original balances of \$1 million or less. Commercial loans were reviewed to determine the penetration to small businesses with gross annual revenues of \$1 million or less. The table below presents the bank's performance and compares performance with the percentage of small AA businesses. Small business data for the AA is derived from Dun and Bradstreet data for 1999.

Business Size	Number	Amount	Percentage of Small AA Businesses
Small	55.3%	34.3%	72.2%
Large	44.7%	65.7%	27.8%

A slight majority of the number of loans has been made to small businesses and the dollar amount lent has a low penetration to small businesses. The penetrations are lower than the general breakout of AA businesses.

Large banks, generally banks with assets greater than \$250 million, report the number of loans made to small businesses on an annual basis. During 1999, these banks reported that 58 percent of the number and 49 percent of the amount of small business loans extended in Harris County were made to small businesses. Redstone Bank's penetration of loans to small businesses is reasonable compared with other lenders.

Small commercial loans include four loans that are primarily for community development. The loans total \$820,158 and the loan purposes focus on serving low- and moderate-income individuals. The loans help provide affordable housing, emergency and general relief, food and clothing, jobs and job counseling, and other community services. These loans reflect efforts to help meet the needs of low- and moderate-income individuals in the bank's AA.

Geographic Distribution of Loans

Overall, the geographic distribution is adequate given the short time that Redstone Bank has been in business and its location in an upper-income area. Our analysis revealed efforts have been made to achieve a geographic distribution consistent with the assessment area. Loans have been extended in each income level, although the geographic distribution is not entirely consistent with the AA demographic profile. The commercial lending distribution weighed more heavily in assessing performance since the bank focuses on commercial lending, and commercial lending reflects an adequate distribution.

The geographic distribution of loans was analyzed by reviewing the distribution of all AA loans extended since opening in February of 1999. The majority of loans were made to upper-income census tracts, which is largely a result of the bank's location in an affluent area. The distribution

is displayed in the table below. Income levels for census tracts were derived from the

1990 U.S. Census.

Census Tract Income Level	Number of Loans	Amount of Loans	AA Census Tracts
Low	3.2%	0.4%	12.5%
Moderate	15.8%	16.0%	30.8%
Middle	22.1%	4.9%	29.0%
Upper	58.9%	78.7%	25.3%

As depicted in the table above, loans have been made in each income level; however, the penetration of loans to low- and moderate-income geographies is lower than the percentage of AA geographies in those income levels.

Geographic Distribution of Commercial Loans

Further analysis provides the distribution for AA commercial loans compared with the distribution of businesses throughout the AA.

Census Tract Income Level	Number of Bank Loans	Amount of Bank Loans	Percentage of AA Businesses
Low	4.0%	0.3%	6.7%
Moderate	20.0%	12.0%	27.9%
Middle	26.0%	36.5%	29.9%
Upper	50.0%	51.2%	35.5%

The number of commercial loans made in both low- and moderate-income census tracts reflects a slightly lower penetration than the percentage of businesses in those income levels. Redstone Bank is located in an upper-income census tract and is surrounded by upper-income geographies. Given the geographic location of the bank and that performance demonstrates efforts to lend to businesses in each income level, the geographic distribution of commercial loans is adequate.

Geographic Distribution of Consumer and Residential Real Estate Loans

Loans to individuals for residential real estate and consumer loans were compared with the percentage of AA families in each income level.

Census Tract Income Level	Consumer	Residential Real Estate	Percentage of AA Families
		7	

	Number	Amount	Number	Amount	
Low	3.2%	0.0%	0.0%	0.0%	8.1%
Moderate	12.9%	0.4%	5.0%	12.8%	26.9%
Middle	22.6%	3.0%	35.0%	1.6%	32.6%
Upper	61.3%	96.6%	60.0%	85.6%	32.4%

The distribution for consumer loans reflects some activity in each income level and reflects efforts to lend to individuals in each income level. Although the penetration is less than the percentage of AA families, it is considered adequate given the bank's location in an affluent area and limited time in business. The penetration of residential real estate loans is low for both low- and moderate-income geographies. Residential real estate loans do not represent a large portion of the loan portfolio.

Response to Complaints

No complaints relating to the bank's CRA performance have been made since the opening.

Compliance with Antidiscrimination Laws and Regulations

During this examination a review of technical compliance with the Equal Credit Opportunity Act was completed and lending policies and procedures, training, and internal audit practices were reviewed. We did not find any violations of the substantive provisions of the antidiscrimination laws and regulations. No comparative file review was conducted. Since Redstone Bank has only originated a limited number of loans in any one category, a comparison of lending practices based on any prohibited basis would not be meaningful.