



Public Disclosure

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Community Reinvestment Act Performance Evaluation

Southwest Bank of Texas, National Association
Charter Number: 17479

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Office of the Comptroller of the Currency

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NOTE: This evaluation is not, and should not 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.

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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 CRA performance of **Southwest Bank of Texas, National Association**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **May 10, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Full-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography - A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA) - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Limited-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Low-Income - Income levels that are less than 50% of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120% or more of the MFI.

Overall CRA Rating

Institution’s CRA Rating: This institution is rated **“Satisfactory.”**

The following table indicates the performance level of **Southwest Bank of Texas, National Association**, with respect to the Lending, Investment, and Service Tests:

Performance Levels	Southwest Bank of Texas, N. A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding		X	
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

The major factors that support this rating include:

- < Significant levels of community development lending and community development investments
- < An improved and expanded system of branch offices
- < A reasonable distribution of major types of loans among geographies and borrowers of various income levels
- < A good level of lending, especially lending to small businesses.

Description of Institution

Southwest Bank of Texas, National Association, (SWBT), Houston, Texas, is a full service commercial bank, with a strong emphasis in its business strategy upon lending to small and medium size businesses. Its entire operation is in the greater Houston metropolitan area where it operates twenty-five branch offices. Since its founding in 1989, the bank has grown rapidly to its current asset base of approximately \$2.1 billion. Its deposit base approximates 4% of the total deposits of all financial institutions in its assessment area. Acquisitions of two existing institutions, Pinemont Bank and Fort Bend Federal Savings Bank, have also expanded both its financial and physical bases in the community.

The Pinemont acquisition in August 1997 was the impetus for the bank's expansion into a more retail-oriented configuration. Following this acquisition SWBT evaluated its assessment area and elected to expand that to include all of Harris County. The Fort Bend acquisition in October 1998 has continued the bank's retail oriented trend and additional census tracts in Fort Bend and Waller Counties were added to the assessment area at that time. In addition, the bank has added two affordable housing lenders in 1998 to broaden its mortgage lending operations. Further, the bank recently acquired Mitchell Mortgage Company, providing additional mortgage lending capacity, although those activities are not considered in this evaluation, due to the recency of the acquisition.

SWBT is a subsidiary of the one-bank holding company, Southwest Bancorporation of Texas, Inc. There are no other subsidiaries or affiliates given consideration for this evaluation.

Loans represent approximately 60% of SWBT's total assets. Business loans make up nearly 80% of total lending. Mortgage lending is a relatively small, but increasing, portion of the bank's business. Consumer lending has not been a major area of emphasis historically, but has become more important as the bank has expanded its branch office system and sought more retail business. For all of this, SWBT remains primarily a business bank. During the past two years, the board and management of SWBT have made a concerted effort to direct significant resources toward community development loans, investments, and services.

SWBT's capital base is approximately \$148 million.

A CRA Performance Evaluation dated March 14, 1997, was previously prepared for this bank, and a Satisfactory rating was assigned.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This evaluation considered lending activity for the calendar years 1997 and 1998. Consideration was given to home purchase, home refinance, home improvement, small business, and community development loans made in those years. Qualified investments and activities considered in evaluating the Investment and Service tests occurred between March 14, 1997, (previous examination date) and May 10, 1999, when the current examination commenced.

Data Integrity

Prior to the commencement of this CRA examination, OCC examiners conducted a review to test the validity of SWBT's reported loan data under the provisions of CRA and HMDA. Through a sampling and testing process, it was determined that no significant errors had been made by the bank in the reporting process. Thus, the data and the publicly available information ensuing therefrom are judged to be accurate and useful.

Selection of Areas for Full-Scope Review

SWBT operates in but one assessment area, encompassing the greater Houston metropolitan area.

Ratings

All conclusions are based upon evaluation of SWBT's activities and accomplishments in its Houston assessment area.

Other

As part of this evaluation, various contacts were made with community organizations or other parties in the Houston area. Information gathered from other contacts made in the community during the evaluation period were also reviewed. These include smaller, "grass roots" organizations, as well as some larger entities and some government or quasi-governmental organizations. These contacts were generally positive in their assessments of SWBT's activities in its community. As is typically the case, many of these parties suggested that more attention to affordable housing development and lending and to financing for the smaller businesses continue to be significant needs in the community.

Fair Lending Review

A fair lending examination was performed which focused upon validating the results of management's fair lending self-evaluation. The self-evaluation consisted of a loan analysis testing rates and terms on unsecured consumer loans comparing loans to approved single females versus loans to approved single males. The results were affirmed by using a comparative analysis of seven approved single females to thirty-one approved single males. The sample evaluated loans that originated from June 1, 1998, to January 31, 1999. No evidence of illegally discriminatory credit practices were identified at this examination. In addition, to assess compliance with the Equal Credit Opportunity Act (ECOA), a review of twenty Adverse Action Notices to single female applicants were compared to notices sent to twenty single male applicants. As a result, the fair lending examination did not impact the CRA rating unfavorably. This examination and the results of previous examinations which evaluated home lending indicate that SWBT is in compliance with applicable anti-discrimination laws (ECOA and the Fair Housing Act).

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Lending Test is rated "High Satisfactory". Refer to **Appendix C- Tables of Performance Data** for the facts and data that support these conclusions.

Conclusions:

- < Lending levels reflect good responsiveness to credit needs within SWBT's assessment area.
- < SWBT has made numerous community development loans, totaling nearly \$30 million, within its assessment area.
- < The geographic distribution of home mortgage loans has improved in 1998 following the implementation of an affordable housing program. Home improvement loans are provided primarily to middle- and upper-income geographies. The geographic distribution of small business loans is good.
- < The distribution of home mortgage loans among borrowers of different income levels has also improved in 1998, although home improvement loans continue to be granted primarily to middle- and upper-income borrowers. Small business loans show a good distribution to businesses of various sizes, based upon available revenue data.

Lending Activity

Lending levels reflect a good responsiveness to credit needs within SWBT's assessment areas. The bank's loan to deposit ratio at December 31, 1998, was 76.46%. This ratio has been increasing and has averaged 70.85% since the last evaluation. During the evaluation period, SWBT made approximately 88% of its home loans and 93% of its business loans within its assessment area. SWBT ranks first in loan to deposit ratio among peer group financial institutions in the Houston assessment area. The other financial institutions compared to SWBT included both larger and smaller institutions.

SWBT has made fifty-two (52) community development loans totaling \$29.54 million within the assessment area during the evaluation period. Ten of these loans were for multi-family housing that provided 1,456 housing units, primarily to low- and moderate-income individuals.

SWBT has a small share of the Houston market for home mortgage products originated during the review period. Its market share for loans originated in 1997 was less than one percent in each of the three categories of HMDA loans (home purchase, home improvement, and refinance) analyzed under the Lending Test. SWBT originated 835 HMDA loans, totaling approximately \$106 million during 1997 and 1998.

During the same period, SWBT originated 2,506 small business and small farm loans, within the assessment area, totaling approximately \$320 million. Market share information for 1997 shows that the bank is a major lender to small businesses, ranking seventh in its assessment area. This level of lending activity reflects its business strategy and expertise.

SWBT's consumer loan activity was not evaluated for this examination. Banks are not required to collect and report data on consumer loan activity, and SWBT did not provide such information for this evaluation.

Distribution of Loans by Income Level of the Geography

Home Mortgage Loans

SWBT's HMDA lending distribution in low- and moderate-income geographies is adequate. Refer to **Appendix C- Tables of Performance Data** Table 2 to Table 5 for mortgage lending patterns by the income level of the geographies located in the assessment area.

SWBT's percentage of home purchase loans originated during the review period, in low-income geographies, is less than the percentage of owner-occupied units within these geographies. The percentage of home purchase loans in moderate-income geographies slightly exceeds the percentage of owner-occupied units in these geographies. The percentages of home purchase loans made in both low- and moderate-income geographies was significantly less than the percentage of owner-occupied units in those geographies in 1997. As a result, SWBT developed an affordable housing product (discussed further under the **Innovative and Flexible Lending Products** section) to improve its performance in the low- and moderate-income geographies. The number and dollar amount of home purchase loans originated in 1998 was much higher than 1997 totals, particularly the number of

loans originated in the low- and moderate-income geographies. For example, 1997 levels were 35 loans totaling \$3 million compared to 130 loans totaling \$23 million. Nevertheless, the bank's market share in low- and moderate-income geographies is higher than its overall market share for home purchase loans originated in 1997.

SWBT's percentage of home improvement loans originated in both low- and moderate-income geographies is significantly less than the percentage of owner-occupied units in those geographies. The percentage of refinance loans originated in both low- and moderate-income geographies is less than the percentage of owner-occupied units in those geographies. The bank's market share in low- and moderate-income geographies is lower than its overall market share for home improvement loans. The market share for refinance loans in low-income geographies is also below the overall market share, but matches in the moderate-income geographies.

Small Business Loans

SWBT's geographic distribution of small business loans reflects a reasonable dispersion throughout the assessment area. SWBT's percentage distribution in the number of small business loans is lower than the percentage of businesses located in both the low-income and moderate-income geographies. SWBT's market share in the low- and moderate-income geographies is slightly lower than its overall market share. SWBT's market rank and share indicate that it is one of the leaders in the origination of small business loans within the assessment area.

Refer to **Appendix C- Tables of Performance Data** Table 6 which shows the number of small business loans originated within the assessment area between January 2, 1997 and December 31, 1998. The chart also displays the percentage of businesses located in each designated geographies, SWBT's overall market share and market share within the geographies.

Small Farm Loans

As mentioned in the **Description of the Institution** section, the bank's portfolio composition and lending strategy reflect a limited number of agricultural loans secured by farmland or for agricultural production. Only five loans were originated during the review period and all were located within the assessment area. This type of loan has averaged less than one percent of the loan portfolio for the past five years. Because the volume of small farm loans generated was so low, an analysis of this type of lending would not be meaningful for this evaluation.

Gap Analysis

A lending gap analysis was performed to determine if there were conspicuous gaps in lending throughout the bank's assessment area. The analysis showed two areas that had neither HMDA nor small business loans. A review of the location of bank branches, and the demographics of the low- and moderate-income geographies with no loans revealed the following: a majority of the geographies with no loans had no branches within a reasonable distance or the geography was recently added to SWBT's overall assessment area. For HMDA purpose loans, many of the low- and moderate-income geographies with no loans had a low percentage of owner-occupied units compared to total housing units. For small business loans, few businesses were located in the geographies that had no small business loans originated by SWBT, and few loans were made by any other small business lender in 1997. At least two major community development loans were made by SWBT in census tracts adjacent to those two described above. Given the facts and circumstances noted above, we concluded that no unexplained conspicuous gaps exist within the bank's assessment area

Distribution of Loans by Income Level of the Borrower

Home Mortgage Loans

SWBT's HMDA lending distribution to low- and moderate-income borrowers is adequate. Lending to low- and moderate-income families is affected by the increasing housing values compared to median family income. Competition for such loans is very strong in the Houston market, where significantly larger financial institutions with extensive branch distribution and/or nonbanks represent the majority of loans funded. As a result, multi-family housing and community development loans are offered by SWBT as an alternative avenue to housing opportunities. Please refer to **Appendix C- Tables of Performance Data** Table 7, 8, and 9 for the percentage distribution of HMDA reportable loans made between January 2, 1997 and December 31, 1998. For comparison, the chart also presents the distribution of all families living in the assessment area according to their income level and number and percentage of total reportable loans within the assessment area.

The percentage of loans to low- and moderate-income borrowers is relatively lower than those to middle- and upper-income borrowers, when compared to the percentage of families within these income categories, with the exception of

refinance loans to moderate-income borrowers. The percentage of loans to moderate-income borrowers for refinance loans slightly exceeds the percentage of moderate-income families in the assessment area.

SWBT has made an effort to increase the number of loans to low- and moderate-income borrowers through its affordable housing program previously mentioned. Its performance showed a significant change for 1998, with a larger proportion of its home purchase and refinance loans made to low- and moderate-income borrowers, compared to 1997. In 1997, SWBT made nine home purchase loans, constituting 4% of its total, to low- and moderate-income borrowers. In 1998, home purchase loans to low- and moderate-income borrowers totaled 110, making up 36% of its home purchase loans. Similar increases were noted for loans to refinance existing mortgages to low- and moderate-income borrowers. No significant changes were noted in the number of home improvement loans made to low- or moderate-income borrowers between 1997 and 1998.

The bank's market share for home purchase, home improvement, and refinance loans to low- and moderate-income borrowers are all below its overall market share for each type of HMDA loan originated in the assessment area in 1997. Market share information for 1998 is not yet available.

Small Business Loans

SWBT has demonstrated a good response to small business credit needs within its assessment area. The percentage of bank loans to businesses in the assessment area with revenues of \$1 million or less is lower than the percentage of such businesses located in the area. However, the percentage of the bank's loans exceeds the percentage of loans of other small business reporters in the assessment area. SWBT is extending credit to small businesses at varying dollar ranges but most significantly in amounts less than \$100,000. SWBT's market share of loans to businesses with revenues of \$1 million or less exceeds its overall market share of small business loans to all businesses, regardless of revenue levels. Please refer to **Appendix C- Tables of Performance Data** Table 10, which will reflect SWBT's willingness to make loans of varying sizes.

Community Development Lending

Refer to Table 1 in **Appendix C** for the facts and data used to evaluate the bank's level of community development lending.

The dollar volume of community development loans originated by SWBT during the evaluation period is excellent. Fifty-two (52) community development loans were

originated during this time for a total volume of \$29.54 million. The purposes of these loans were to 1) purchase and rehabilitate ten multi-family properties for low- and moderate-income families, 2) upgrade two community centers used by low- and moderate-income individuals, and 3) revitalize/stabilize a low-income area. In addition, thirty-seven (37) of the loans, totaling \$5.46 million, were made to a local home builder who specializes in affordable housing to low- and moderate-income individuals and families.

Bank management and lending personnel have demonstrated a strong commitment to community development lending. Described below are examples of the types of loans funded:

- C A \$3.6 million loan to a not-for-profit organization was made to fund significant upgrades to the organization's facilities on Houston's southeast side, particularly those of its alternative high school for at-risk youth. Bank senior management recognized the importance of this facility, the need for improvements, and that funding was not immediately forthcoming from other sources. Services offered by this organization, in addition to its high school, are gang intervention, a low-cost day care center, English language classes, and drug abuse counseling (including a residential program). These services are targeted to low-and moderate-income individuals. This loan is reportedly among the largest ever for a facility of this type.
- C An \$892 thousand loan was made to a not-for-profit organization to finance the conversion of a vacant motor hotel on the north side of Houston into a single-room-occupancy transitional housing facility for low-and moderate-income individuals. Bank management involvement was critical to the success of this project. SWBT personnel worked with representatives from this organization, the City of Houston, Harris County, and the United States Department of Housing and Urban Development for two years in an effort to complete this project. In addition to the bank's leadership role, this project is considered complex, as several layers of financing were required.
- C A \$650 thousand loan was made to a senior citizen ministry of a Baptist church within the assessment area to finance construction of a 54-unit retirement community for low- and moderate-income persons in the southern sector of Houston. This project was accomplished through a multi-layered arrangement of loans and grants from SWBT, the Federal Home Loan Bank, and the City of Houston. Residents of the complex must have incomes at or below 70% of the Houston area median income. This project is clearly responsive to identified needs as all available units have been leased prior to completion of the construction.

Product Innovation and Flexibility

In mid-1998, SWBT introduced its internal affordable housing loan program. Two full-time lenders originate this mortgage loan product for the bank's portfolio. Flexible underwriting associated with the program includes waiver of private mortgage insurance when necessary, acceptance of alternative credit references, and minimization of down payment and closing expenses. The bank has originated 28 loans totaling \$1,383,450 (average loan of \$49,409).

Also, to assist small businesses, SWBT created in 1998, a special loan program to meet loan requirements of \$40,000 or less. This product features a favorable fixed interest rate for a term up to five years. In late 1998, four loans totaling \$130,410 were originated under this program.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Investment Test is rated "Outstanding".

Based upon a full-scope review, the bank's performance in the Houston assessment area is excellent during the evaluation period. Refer to **Appendix C - Tables of Performance Data** Table 12 for the facts and data used to evaluate the bank's level of qualified investments.

SWBT has displayed a notable level of leadership in the development and purchase of innovative and complex qualified investments. To qualify for consideration, an investment must take the form of an investment security, deposit, membership share, grant, or donation that has as its primary purpose community development (as defined in the CRA regulation). During the evaluation period, there were 69 qualified community development investments made for a total volume of \$6.292 million. There were no qualified investments carried on the books of the bank that were initiated prior to this evaluation period.

Specific examples of qualified investments include:

- C In 1997, a member of the bank's Executive Management originated the idea of working with companies to provide creative subordinated term loans. As a result, an individual was recruited to open Southwest/Catalyst Capital, Ltd, a small business investment partnership (SBIP) which opened in September 1997. SWBT funded a feasibility study to determine the need for the SBIP, legal and

organizational fees and provided 100% of the start-up capital. SWBT has invested \$3.535 million (of a \$5 million commitment) in the SBIP. This investment allows the bank to participate in “risk” oriented investments to help latter-stage growth companies in need of capital. The investments generally take the form of subordinated loans to companies to provide capital for acquisitions, buyouts, recapitalization, business expansion, or debt refinancing. The SBIP is an alternative product that adds a resource not usually offered by financial institutions due to the typically higher level of risk. The SBIP allows the bank to work with prospective borrowers who will grow into “bankable” customers by making available essential, non-credit related financial services. SWBT took a substantial leadership role in the formation of this SBIP. This investment is considered innovative and complex.

- C As a means to aid affordable housing groups, SWBT not only provides financing for the underlying projects, but has also invested in associated low-income-housing tax credits. In one participating apartment project, SWBT initiated the formation of a limited partnership at its own expense. The purpose of this partnership was to allow the purchase of the considerable tax credits on this project by a number of entities, while still allowing the developer to sell those credits in a single transaction. As a limited partner, SWBT purchased \$500 thousand in low-income housing tax credits. This appears to be a unique use of a limited partnership for this purpose.
- C Five FNMA mortgage-backed securities totaling approximately \$2 million were purchased during the months of September, October, and November of 1998. These securities are backed by single family loans to low- and moderate-income borrowers in the Houston assessment area. Purchase of such securities facilitates the continuing availability of mortgage loan funds in the assessment area.
- C SWBT made numerous other qualified community development investments in the Houston assessment area in a wide variety of organizations, including those involved in home ownership counseling, social services, small business development, affordable housing, and general community development.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank’s performance under the Service Test is rated “High Satisfactory”. Based on a full-scope review, the bank’s performance in the Houston assessment area is very good. Bank delivery systems are accessible to essentially all of the

portions of SWBT's assessment area, and bank services, including business hours, do not vary in a way that inconveniences any portion of the area, particularly low- and moderate-income geographies and individuals. Also, the bank has provided numerous community development services in Houston, often in a leadership role.

Retail Banking Services

Refer to **Appendix C - Tables of Performance Data** Table 13 for the facts and data used to evaluate the distribution of the bank's branch and ATM delivery system.

Delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area including low- and moderate-income geographies and individuals. The larger percentage (44%) of the bank's 25 branches are in upper-income areas. In 1995 the bank had no branches in low- or moderate-income census tracts, whereas now accessibility has been enhanced with SWBT operating five branches in these geographies. Since the prior evaluation, the bank opened two branches, one of which was in a moderate-income census tract. The other branches in low- and moderate-income tracts were acquired by the bank through mergers with other financial institutions. No branch has been closed since the prior CRA evaluation.

Services do not vary in a way that inconveniences portions of the assessment areas, particularly low- and moderate-income individuals. Each branch has a full service lobby, and all but four SWBT branches have drive-up facilities. The branches without drive up facilities are primarily located in office buildings in middle- and upper-income business districts, and have no Saturday hours. All branch lobbies open at 9:00 am Monday through Friday, and close between 4:00 and 5:00 pm. Four branches, in various geographies (one moderate-income, two middle-income, one upper-income), have Saturday lobby hours. Two of the branches in middle- and upper-income tracts with Saturday hours are located in small communities in the western part of Fort Bend County. The branch in a moderate-income tract is the only branch in the Houston/Harris County portion of the assessment area which offers Saturday hours. All of the drive-up facilities have extended hours, generally opening at 7:30 am and closing at 6 pm Monday through Friday, and all except one, in downtown Houston, are open from 9:00 am to noon on Saturdays. The branch located in a low-income census tract has extended hours throughout the week, with the lobby open until 6:00 pm on Friday, and the motor bank open until 7:00 pm on Friday and from 8:00 am to noon on Saturday.

The bank operates 27 ATMs, of which 24 are associated with branches. One free-standing ATM is located in a Wal Mart store in a middle-income geography in

Missouri City; one is in the Compaq Center, a multi-use arena facility, in an upper-income census tract; and the third is also in an upper-income business district. Of the bank's 27 ATMs, 26 offer Spanish language options. The bank's INFOLINE account inquiry phone system is also bilingual.

SWBT offers standard bank products at competitive rates and terms. These products include basic checking and deposit products for individuals and businesses, private banking services, consumer loans, commercial loans and lines of credit, and real estate loans. One deposit product of note is the bank's no-minimum deposit checking account for consumers over 55 years of age with electronic funds transfer for government checks and unlimited ATM usage, for a \$4 monthly maintenance fee. The bank also offers a Young Savers account for ages 18 and younger to help establish savings habits.

Community Development Services

SWBT has provided a good level of community development services in the Houston assessment area. In some cases (for example, the first two services described below) these services are notably innovative. Some of the more interesting examples of services which have been provided to twenty-five different organizations are described below:

- C Ministerial Conference on Community Development. SWBT was the sole sponsor of a one-day, cost-free, conference to offer information and insight concerning community development, small business lending, and affordable housing. The target audience consists of ministers or other leaders of the faith-based communities in the Houston area. The third annual conference in 1999 featured several panels discussing planning and financing for community development projects, and was attended by over 140 persons. SWBT's sponsorship of this conference is innovative as this type of event has not been previously held in the Houston area.
- C A SWBT vice president developed and instructs courses for a minor degree program in community development at a local college. This service is innovative as this type of curriculum, per SWBT management, is not offered by any other accredited college in the Houston area. This local college provides low cost post graduate studies and associate of arts degrees in theological and life skills, primarily to the minority community.
- C A member of SWBT senior management is a board member, chair of the Mortgage Review Committee, instructor of a course titled Fundamentals of Good Credit, and president-elect of a local credit coalition. This credit coalition

is an organization whose main purpose is to facilitate the increased availability of credit to low- and moderate-income persons.

- C A SWBT Vice President and other officers have provided technical financial expertise to the organizers of a local homeless shelter. As noted previously, this organization provides transitional housing for low-income persons, and the bank has also provided financing.
- C A member of SWBT senior management is the secretary and treasurer of a local community development corporation which provides small business loans to disadvantaged borrowers within the bank's assessment area. SWBT was a participant in the formation of this organization and in the development of its loan underwriting guidelines.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term "Full-Scope") and those that received a less comprehensive review (designated by the term "Limited-Scope").

Time Period Reviewed	Lending Test: January 1, 1997 to December 31, 1998 Investment Test: March 15, 1997 to May 10, 1999 Service Test: March 15, 1997 to May 10, 1999	
Financial Institution	Products Reviewed	
Southwest Bank of Texas, N. A. (SWBT) Houston, Texas	Home Purchase, Home Improvement, Home Refinance, Small Business, and Community Development Loans.	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None.		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Houston MSA #3360	Full Scope	

Appendix B: Market Profiles for Full-Scope Areas

Table of Contents

Market Profiles for Areas Receiving Full-Scope Reviews

Houston MSA	B-2
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HOUSTON

Demographic Information for Full-Scope Area: Houston						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	629	11.61	28.46	30.21	27.50	2.23
Population by Geography	3,060,780	8.35	26.44	33.11	32.10	0.00
Owner-Occupied Housing by Geography	593,314	5.18	20.38	33.11	41.33	0.00
Businesses by Geography	134,198	6.75	27.14	30.21	35.66	0.25
Farms by Geography	2	3.50	19.54	38.03	38.92	0.00
Family Distribution by Income Level	773,924	22.18	16.47	20.29	41.06	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	299,136	15.08	38.83	31.70	14.39	0.00
Median Family Income HUD Adjusted Median Family Income for 1998 Households Below the Poverty Level	= \$40,250 = \$50,400 = 13.2%	Median Housing Value Unemployment Rate (1998)		= \$75,684 = 3.8%*		

Source: 1990 U.S. Census and 1998 HUD updated MFI. * Source: Texas Department of Labor

SWBT has its entire operation within the Houston MSA. It has established a single assessment area consisting of the MSA, and several contiguous census tracts outside the MSA that are adjacent to its offices. Major competitors in the assessment area include Bank of America, Bank One, Chase Bank of Texas, Wells Fargo Bank and Bank United, as well as numerous other commercial and savings banks. Houston is the fourth largest municipality in the country, and the Houston metropolitan area is among the tenth largest. The local economy is historically based upon petrochemical and shipping endeavors, and those continue to be extremely important. The Houston economy is currently robust.

Appendix C: Tables of Performance Data

Content of Standardized Tables

The tables cover the entire CRA evaluation period. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: purchased loans are treated as originations; market rank is based on the number of loans made by the bank as compared to all other lenders in the MSA/assessment area; and market share is the number of loans originated by the bank as a percentage of the aggregate number of reportable loans originated by all lenders in the MSA/assessment area. The following is a listing and brief description of the tables included in each set:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated by the bank over the evaluation period by MSA/assessment area.
- Table 2. Geographic Distribution of HMDA Home Purchase Loan Originations** - Compares the percentage distribution of the number of loans originated by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of HMDA Home Improvement Loan Originations** - See Table 2.
- Table 4. Geographic Distribution of HMDA Refinance Loan Originations** - See Table 2.
- Table 5. Geographic Distribution of Small Business Loan Originations** - The percentage distribution of the number of small loans (< \$1 million) to businesses originated by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Farm Loan Originations** - The percentage distribution of the number of small loans (< \$500,000) to farms originated by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 7. Borrower Distribution of HMDA Home Purchase Loan Originations** - Compares the percentage distribution of the number of loans originated by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 8. Borrower Distribution of HMDA Home Improvement Loan Originations** - See Table 7.
- Table 9. Borrower Distribution of HMDA Refinance Loan Originations** - See Table 7.
- Table 10. Borrower Distribution of Small Business Loan Originations** - Compares the percentage distribution of the number of small loans (< \$1 million) originated by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. The table also presents the percentage distribution of the number of loans originated by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 11. Borrower Distribution of Small Farm Loan Originations** - Compares the percentage distribution of the number of small loans (< \$500 thousand) originated by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. The table also presents the percentage distribution of the number of loans originated by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/assessment area.

Table 13. Distribution of Branch and ATM Delivery System - Compares the percentage distribution of the number of the bank's retail branches and ATMs in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography.

Table 14. Geographic and Borrower Distribution of Consumer Loan Originations (OPTIONAL) - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of the population within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage of households by income level in each MSA/assessment area.

Table 1. Lending Volume

LENDING VOLUME		State: TEXAS				Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998						
MSA/Assessment Area:	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farm		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Full-Scope:												
HOUSTON	100%	835	\$105,651	2,501	\$319,420	5	\$330	52	\$29,540	3,393	\$454,941	100.00%
Limited-Scope:												
N/A												

Table 2. Geographic Distribution of Home Purchase Loan Originations

Geographic Distribution: HOME PURCHASE				State: TEXAS				Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998								
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
HOUSTON	5.18%	2.70%	20.38%	20.90%	33.11%	21.60%	41.33%	54.80%	73	0.33	0.41	0.47	0.17	0.40	518	100%
Limited-Scope:																
N/A																

(*) Based on 1997 Aggregate HMDA Data only.

Table 3. Geographic Distribution of Home Improvement Loan Originations

Geographic Distribution: HOME IMPROVEMENT					State: TEXAS		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998									
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
HOUSTON	5.18%	0.45%	20.38%	6.83%	33.11%	17.07%	41.33%	75.61%	21	0.73	0.00	0.22	0.40	1.25	205	100%
Limited-Scope:																
N/A																

(*) Based on 1997 Aggregate HMDA Data only.

Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations

Geographic Distribution: HOME MORTGAGE REFINANCE		State: TEXAS				Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998										
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Mortgage Refinance Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
HOUSTON	5.18%	2.68%	20.38%	14.29%	33.11%	32.14%	41.33%	50.89%	57	0.52	0.48	0.52	0.82	0.37	112	100%
Limited-Scope:																
N/A																

(*) Based on 1997 Aggregate HMDA Data only.

Table 5. Geographic Distribution of Small Business Loan Originations

Geographic Distribution: SMALL BUSINESS				State: TEXAS				Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998								
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans	
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
HOUSTON	6.75%	3.80%	27.14%	22.20%	30.21%	31.20%	35.66%	42.10%	7	3.48	2.01	3.32	3.49	3.73	2,501	100%
Limited-Scope:																
N/A																

(*) Based on 1997 Aggregate Small Business Data only.

Table 6. Geographic Distribution of Small Farm Loan Originations

Geographic Distribution: SMALL FARM		State: TEXAS		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998													
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans		
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total	
Full-Scope:																	
HOUSTON	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Limited-Scope:																	
N/A																	

(*) Based on 1997 Aggregate Small Farm Data only.

Table 7. Borrower Distribution of Home Purchase Loan Originations

Borrower Distribution: HMDA HOME PURCHASE		State: TEXAS		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998												
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Purchase Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
HOUSTON	22.18%	11.16%	16.47%	13.43%	20.29%	5.37%	41.06%	70.04%	73	0.33	0.10	0.04	0.09	0.70	518	100%
Limited-Scope:																
N/A																

(*) As a percentage of loans with borrower income information available. No information was available for 6.56% of loans originated by BANK.
 (**) Based on 1997 Aggregate HMDA Data only.

Table 8. Borrower Distribution of Home Improvement Loan Originations

Borrower Distribution: HOME IMPROVEMENT		State: TEXAS		Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998												
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Improvement Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
HOUSTON	22.18%	2.05%	16.47%	1.03%	20.29%	4.10%	41.06%	92.82%	21	0.73	0.07	0.05	0.08	1.31	205	100%
Limited-Scope:																
N/A																

(*) As a percentage of loans with borrower income information available. No information was available for 4.88% of loans originated by BANK.
 (**) Based on 1997 Aggregate HMDA Data only.

Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations

Borrower Distribution: HOME MORTGAGE REFINANCE		State: TEXAS						Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998								
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Mortgage Refinance Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
HOUSTON	22.18%	1.89%	16.47%	16.98%	20.29%	7.55%	41.06%	73.58%	57	0.52	0.00	0.35	0.31	0.87	112	100%
Limited-Scope:																
N/A																

(*) As a percentage of loans with borrower income information available. No information was available for 5.36% of loans originated by BANK.
 (**) Based on 1997 Aggregate HMDA Data only.

Table 10. Borrower Distribution of Small Business Loan Originations

Borrower Distribution: SMALL BUSINESS			State: TEXAS			Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998					
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans		
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size (000)
Full-Scope:											
HOUSTON	88.56%	65.50%	50.00%	70.70%	14.00%	15.30%	3.48	4.69	2,501	100%	\$115
Limited-Scope:											
N/A											

(*) As a percentage of businesses with known revenues.
 (**) As a percentage of loans with revenue information available. No information was available for 6.90% of loans originated by BANK.
 (***) The market consists of all other Small Business reporters in BANK's assessment area and is based on 1997 Aggregate Small Business Data only.
 (****) Based on 1997 Aggregate Small Business Data only.

Table 11. Borrower Distribution of Small Farm Loan Originations

Borrower Distribution: SMALL FARM			State: TEXAS			Evaluation Period: JANUARY 1, 1997 TO DECEMBER 31, 1998					
MSA/Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans		
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
HOUSTON	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Limited-Scope:											
N/A											

(*) As a percentage of farms with known revenues.
 (**) As a percentage of loans with revenue information available. No information was available for XX% of loans originated by BANK.
 (***) The market consists of all other Small Farm reporters in BANK's assessment area and is based on 1997 Aggregate Small Farm Data only.
 (****) Based on 1997 Aggregate Small Farm Data only.

Table 12. Qualified Investments

QUALIFIED INVESTMENTS		State: TEXAS			Evaluation Period: MARCH 15, 1997 TO MAY 10, 1999					
MSA/Assessment Areas:	Prior Period Investments*			Current Period Investments			Total Investments			
	#	\$ (000's)	%**	#	\$ (000's)	%**	#	\$ (000's)	% of Total \$'s	
Full-Scope:										
HOUSTON	0	0	N/A	69	\$6,292	100%	69	\$6,292	100%	
Limited-Scope:										

(*) "Prior Period Investments" means investments made in a previous evaluation period that remain outstanding.
 (**) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

Table 13. Distribution of Branch and ATM Delivery System

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM				State: TEXAS				Evaluation Period: MARCH 15, 1997 TO MAY 10, 1999									
MSA/Assessment Area:	Deposits	Branches						ATMs				Population					
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full-Scope:																	
HOUSTON	100%	25	100%	4%	16%	36%	44%	27	100%	4%	11%	37%	48%	8%	26%	53%	32%
Limited-Scope:																	