



## **INTERMEDIATE SMALL BANK**

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

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### **PUBLIC DISCLOSURE**

**November 04, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Republic National Bank  
Charter Number 23675**

**6809 FM 1960 West  
Houston, TX 77069**

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

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## **INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated Satisfactory.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Republic National Bank (RNB) has a satisfactory record of meeting community credit needs based on the following:

- The bank's quarterly loan-to-deposit (LTD) ratio is good, and it averaged 85 percent during the evaluation period. The LTD compares favorably to the bank's peer group average of 75 percent during the same period.
- A substantial majority of RNB's small business loans were within the bank's assessment area (AA). Of the total loans, 89 percent of both the number and dollar amount of loans were originated to borrowers within the assessment area.
- RNB's distribution of loans to businesses of different income levels is reasonable. In addition, RNB's Small Business Administration loan department has funded a reasonable amount of loans that promote economic development.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- The level of community development lending, investments, and services is satisfactory overall.
- The bank has not had any complaints concerning its CRA performance during the evaluation period.

### **SCOPE OF EXAMINATION**

This evaluation is based on the bank's performance since the last CRA examination with a date of April 10, 2000. At that examination, the bank received a satisfactory rating. The Lending Test evaluation includes loan originations in 2003, 2004, and through September 30, 2005. Our conclusions for the Lending Test are based primarily on small business loan originations, the bank's primary loan products. At September 30, 2005, commercial and industrial loans to small businesses were approximately 30 percent of the loan portfolio, and commercial real estate loans to small businesses were approximately 37 percent. The evaluation period for the Community Development Test is from the prior CRA examination dated April 10, 2000 through November 30, 2005.

Prior to September 1, 2005, RNB was subject to large bank data collection requirements for small business lending. After this date, the bank became an Intermediate Small Bank and was no longer subject to the large bank requirements. However, loan information collected through September 30, 2005 was available. Also, the bank's data collection process was reviewed during a data integrity examination in 2004. At that time, RNB ensured data through 2004 was correct and continued to collect loan data through 2005. We considered the collected data for 2005 reliable based on the bank's satisfactory data collection process. Therefore, the business revenues, geographic location of the businesses, and loan amounts for this evaluation were obtained from the information RNB had collected using the large bank data collection process. This loan origination information was compared to 2000 Census and Dun and Bradstreet data. Refer to the **Description of Assessment Area** section of this evaluation for details.

We did not review one to four family residential loan products reportable under the Home Mortgage Disclosure Act (HMDA). These loans were less than 3 percent of the number of loans originated and only 7percent of the total loans by dollar. In addition, RNB originated only 131 HMDA loans during the evaluation period. Therefore, an analysis is not meaningful, and HMDA loans will not be discussed in this Performance Evaluation.

## **DESCRIPTION OF INSTITUTION**

RNB is a \$621 million institution serving its customers through six locations in Harris County. The headquarters office is located at 6809 FM 1960 West, Houston, Texas, 77069. The addresses of the other five branches are:

- 4200 Westheimer Road, Suite 101, Houston, Texas 77027
- 14604 Northwest Freeway, Houston, Texas 77040
- 10301-A Katy Freeway, Houston, Texas 77024
- 1055 FM 1960 West, Houston, Texas 77090
- 4130 Fairmont Pkwy, Pasadena, Texas 77504

RNB is owned by a one-bank holding company, Republic Bancshares of Texas, Inc. Hours of operation and products offered are reasonable and similar to competing financial institutions. Net loans as of September 30, 2005, were \$446 million, and this was 72 percent of the bank's total assets. Although RNB offers a standard array of loan products, the bank is primarily a commercial lender. The bank does not have any legal or financial circumstances that impede its ability to help meet the credit of its AA.

Please refer to RNB's CRA Public File for more information about the institution.

## **DESCRIPTION OF HARRIS COUNTY ASSESSMENT AREA**

Harris County is the third largest county in the United States with a population of over 3.6 million residents, and it covers 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 the largest medical center in the world, the Texas Medical Center. The Center's economic impact is more than \$10 billion annually, and it has approximately 52 thousand employees. Approximately

4.8 million patients are treated at the Texas Medical Center annually. Also, eighteen Fortune 500 companies and more than 5 thousand energy related firms are located in the city considered by many to be the "Energy Capital" of the world.

A review of local government programs and community contacts in Houston and Harris County identified high opportunities for participation in community development activities. There are numerous public agencies and community organizations actively working toward community development. In addition, banks in the area have been responsive to those opportunities.

We completed community contacts with organizations in Harris County during other CRA examinations that were applicable to this examination. A Chamber of Commerce contact stated that commercial real estate and commercial loans were the greatest need in the area. Another community leader stated one to four family residential real estate loans were a primary need. In addition, a Chamber of Commerce leader from Northwest Houston stated that loans to industry was the greatest need in that area. A charitable organization leader in North Houston stated that affordable rental housing was a need in that part of Houston. Two of the four identified needs are a part of the bank's primary lending strategy of seeking commercial real estate and commercial lending opportunities. In addition, we found RNB had originated a significant number of loans for affordable rental housing that met a third identified need. Although RNB does originate one to four family residential real estate loans, this is not a primary product.

Local banking competition is intense and includes affiliates of large national banking companies, regional banks, numerous small community banks, credit unions, and non-bank financial service providers. The largest five competitors in this market include: JPMorgan Chase Bank, Bank of America, N. A., Wells Fargo Bank, N. A., Washington Mutual, F. A., and Bank One, N. A.

Demographic information reviewed during the examination from the 2000 Census is reflected in the following table:

<b>Demographic and Economic Characteristics of Harris County AA</b>	
<i>Population</i>	3,400,578
Number of Families	840,630
Number of Households	1,206,423
<i>Geographies</i>	
Number of Census Tracts/BNA	649
% Low-Income Census Tracts/BNA	9.71
% Moderate-Income Census Tracts/BNA	34.36
% Middle-Income Census Tracts/BNA	27.43
% Upper-Income Census Tracts/BNA	27.43
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	51,431
2004 HUD-Adjusted MFI	59,400
<i>Economic Indicators</i>	
Unemployment Rate %	3.00
2004 Median Housing Value	98,599
% of Households Below Poverty Level	12.27

Source: 2000 Census data and 2004 HUD updated income data.

# CONCLUSIONS ABOUT PERFORMANCE CRITERIA

## LENDING TEST

The bank's performance under the Lending Test is rated "Satisfactory".

### Loan-to-Deposit Ratio

The bank's quarterly loan-to-deposit (LTD) ratio is good, and it averaged 85 percent during the evaluation period. For comparison purposes, we selected a peer group of all banks in Harris County. The bank's LTD compares favorably to this peer group average of 75 percent during the same period.

### Lending in Assessment Area

A substantial majority of RNB's small business loans were originated within the bank's AA as shown in the following table:

<b>Lending in Harris County Assessment Area</b>											
Loan Type(s)	Number of Loans					Dollars of Loans (000's)					
	Inside		Outside		Total	Inside		Outside		Total	
	#	%	#	%		\$(000)	%	\$(000)	%		
2003-2005 CRA loans	3,377	89%	420	11%	3,797	426,473	89%	52,827	11%	479,300	

Source: (Data reported under CRA).

### Lending to Businesses of Different Sizes

The income distribution of small business for the years 2003 through 2005 was adequate for loans originated to businesses with revenues of less than \$1 million. The percent of businesses in the AA with revenues less than \$1 million was 62.44 percent based on 2003 Dun and Bradstreet information. RNB originated 45.13 percent of the total 3,377 loans originated to businesses with less than \$1 million in revenues. The bank's loan total was less than the characteristics of the AA at 72 percent of the Dun and Bradstreet demographic comparison. This is considered adequate performance. Details of the bank's performance are in the following table:

<b>2003 - 2005 Borrower Distribution of Loans to Businesses for Harris County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.44%	6.24%	31.32%	100%
% of Bank Loans in AA by #	45.13%	44.21%	10.66%	100%
% of Bank Loans in AA by \$ (000)	33.91%	56.52	9.57%	100%

Source: (Data reported under 2003, 2004, and 2005 CRA); Dun and Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of loans to small business for the years 2003 through 2005 was adequate for low-income geographies and near to the demographic characteristics of the AA in moderate-income geographies. The percent of small businesses with revenues less than \$1 million in the AA was 5.98 percent in low-income tracts according to Dun and Bradstreet information, and the bank originated 4.01 percent of their loans to small businesses in these tracts. This was 67 percent of the Dun and Bradstreet demographic comparison and considered adequate. The percent of small businesses in the assessment area was 28.25 percent in moderate-income tracts according to Dun and Bradstreet information, and the bank originated 23.44 percent of their loans to small businesses in these tracts. This was 83 percent of the Dun and Bradstreet demographic comparison and considered good. Details of the bank’s performance are in the following table:

2003 – 2005 Geographic Distribution of Loans to Businesses in Harris County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	5.98%		28.35%		25.73%		39.63%	
LOANS	% of Number	% of Amount						
Small Business Loans	4.01	3.94	23.44	25.35	31.90	34.06	40.65	36.49

Source: (Data reported under 2003, 2004 and 2005 CRA); Dun and Bradstreet data

Responses to Complaints

The bank has not had any complaints concerning its CRA performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the Community Development Test is rated “Satisfactory.” The level of community development lending and community development services is good. Although the bank has originated contributions and donations benefiting the assessment area, the overall level of community development investments is low. RNB has not purchased any investments benefiting the assessment area. However, the level of community development loans and services and the contributions and donations compensates for the overall low level of community development investments.

Community Development Loans

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. Opportunities are significant in Harris County for the origination of community development loans, and the bank has originated a significant number of community development loans. During the evaluation period, officers originated twenty loans for a total of \$8.3 million that met the definition of a community development loan. Most of these loans were originated for multifamily properties. A summary of the qualified community development loans is:

- Eighteen of the twenty loans totaling \$5.5 million were for multifamily properties. The loans were originated to purchase, renovate, or refinance apartment complexes located mostly in low- or moderate-income (LMI) census tracts. A small number of the apartment complexes are not located in LMI census tracts. However, all of the multifamily properties have rents that are below market and are affordable housing for LMI residents. In Houston, Texas, it is not unusual to have LMI areas in census tracts with an overall designation of middle-income or upper-income.
- Of the eighteen multifamily properties, one apartment complex is on the City of Houston approved list as an assisted multifamily project. In addition, several of the properties are located in City of Houston designated Enterprise Zones, Tax Increment Reinvestment Zones, or Houston Hope Neighborhoods. These are initiatives to revitalize and stabilize neighborhoods suffering from neglect, blight, and disinvestment. In addition, three properties are located out of the AA, but they are in a distressed area and owned by a customer residing in Houston, Texas.
- One loan in the amount of \$23 thousand was for land that will be the site of a multifamily property. The property is located in a designated Houston Hope Neighborhood.
- The bank originated a \$2.8 million loan for a retail center in a LMI area. The loan will revitalize and stabilize the area as well as provide jobs for LMI individuals.

In addition to those originated loans discussed above that met all aspects of the community development definition, RNB loan officers originated several loans less than \$1 million in amounts that met the purpose test but not the size test of community development. These loans were included in the bank's loans to small businesses information and are included in the Lending Test totals. However, they are worthy of mention in this performance evaluation. These loans are:

- A \$687 thousand loan originated to build a medical clinic for a doctor that serves LMI individuals.
- A \$674 thousand loan originated to a company in a low-income census tract in Houston, Texas. Although the bank funded the total, this company had worked with the Houston Small Business Development Corporation in the early stages of seeking financing. The loan enables the company to provide jobs for LMI employees. In addition, the company's presence revitalizes and stabilizes a low-income area.
- A \$210 thousand loan to build a new church facility in a moderate-income census tract. The church is located in a designated Houston Hope Neighborhood.
- A \$490 thousand loan for several single-family affordable homes located in a moderate-income census tract. Some of the properties have been sold under a contract for deed and others are leased, and they provide affordable housing for LMI individuals.
- A \$664 thousand loan to purchase land and develop a strip shopping center in a low-income

census tract. The Houston Small Business Development Corporation originated a second lien loan for this project.

- A loan for \$355 thousand for an affordable housing project in a county adjacent to Harris County originated to a bank customer residing in Harris County. And, a second loan originated in a different adjacent county for \$154 thousand to the same customer.

RNB recently implemented a Small Business Administration (SBA) loan department in November of 2004. Since startup, the department has originated twenty-two loans with a total loan amount of \$16.8 million. In addition, RNB has funded twenty of the loans in the total amount of \$11.7 million through October 31, 2005. Four of these loans totaling \$4.7 million were originated under the SBA's 504 program. This program is an economic development program to promote growth and job creation in small businesses. One new job must be created for every \$35 thousand in SBA financing. RNB funds 50 percent of the loan under the SBA 504 Loan Program, and a Certified Development Corporation funds 30 to 40 percent depending upon SBA criteria through the issuance of a debenture. The business owner is responsible for the remaining amount. RNB has worked with the Houston-Galveston Area Local Development Corporation on these four loans during the evaluation period. One loan met the purpose test but not the size test for a community development loan. This was a loan for \$990 thousand to purchase real estate and equipment and relocate a business to a moderate-income census tract. This business provides jobs for approximately fifty to sixty LMI workers.

### 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. Overall, the level of community development investments is low. The bank did not purchase any investments; however, the bank originated 63 contributions totaling approximately \$50 thousand to qualified organizations during the evaluation period.

### Community Development Services

The bank has a good level of community development services. Bank officers are active in several organizations that provide services for LMI individuals. In addition, officers provide technical assistance to organizations that provide community services. The following are examples of the officers' qualifying community development services.

- **Center of Hearing & Speech**  
A senior bank officer served a four-year tenure as the finance director. He provided technical assistance related to providing financial services. The organization provided speech services targeted to LMI individuals who are deaf.
- **University of Houston Small Business Development Center**  
A senior bank officer serves as a board member and treasurer. This organization promotes economic development for businesses with less than \$1 million in gross revenues and sponsors the Minority Enterprise Development Week luncheon.

- **The River Performing & Visual Arts Center**  
A senior officer serves as a board member and treasurer. This organization is a non-profit art enrichment program for children of all abilities for ages two through nineteen. It provides services to children with special health care concerns, special needs, the homeless, siblings and community friends. Most of the children do not pay any fees. In addition, the organization receives free rent from the City of Houston and is housed in a building occupied by other city charities. Funding is primarily from grants and donations.
- **Service Corps of Retired Executives (SCORE)**  
A senior officer serves as an advisory board member providing information as to how SCORE can help clients obtain bank financing. SCORE consists of retired executives that counsel and advise small business owners.
- **Houston Association of Government Guaranteed Lenders**  
A senior officer serves as the committee chair. This organization is composed of Houston's Preferred SBA Lenders. It promotes, markets, and educates the community about obtaining SBA guaranteed loans.
- **Pasadena and Deer Park Chambers of Commerce**  
A senior officer serves as a board member for both Chambers of Commerce. These organizations promote community development activities.
- **Alzheimer's Association of Houston**  
A senior officer serves as a board member. Most of the recipients of services are LMI individuals. In addition, the organization offers grants with no repayment requirement to LMI households.
- **Boys and Girls Country**  
A senior officer serves as a committee member. This organization supports a school and halfway house for children in transition from parents to foster parents. The organization primarily provides a benefit to inner city and LMI communities.
- **Cypress Creek YMCA**  
A senior officer serves as the division leader for the Annual Partners Campaign. This campaign provides scholarship assistance for LMI individuals for after school programs and summer camps.
- **Mountbatten House, Inc.**  
A senior officer serves as a board member. This organization owns and operates an assisted living home in Highlands, Texas for LMI residents. It also provides jobs for ten employees who are LMI individuals.
- **Exchange Club**  
A senior officer serves as a member. This is a service organization that assists mostly LMI households through the Escape Center, Police Activities League, and the Center for Hearing and Speech.

- St. Luke's Methodist Church, Houston Projects Committee  
A senior officer serves as a committee member. This committee awards grants to area organizations in LMI areas of Harris County
- Houston Small Business Development Corporation  
A senior officer has served as chairperson of the Loan Review Committee, and she approved loans on behalf of the City of Houston.

RNB has six branches in Harris County. All of these branches are located in middle or upper-income census tracts, but they are easily accessible to LMI geographies. An analysis of census tracts within a ten-mile radius of these branches revealed that the branches could serve an acceptable level of LMI census tracts. Also, the branches are located on major thoroughfares that are easily accessible for LMI individuals.

The bank offers Value Checking for individuals with limited banking needs. This account features no minimum monthly balance requirement, a monthly statement without imaged checks, a low service charge fee of \$5, and no additional charge for the first twenty-five checks or debits each month. This account requires a \$200 minimum opening deposit. A similar Value Checking is offered to businesses. A monthly maintenance fee of \$12 includes the first two hundred items of checks, debits, deposit slips, deposit items, and credits on accounts when the account balance is below \$5 thousand. There is no monthly service charge for balances of more than \$5 thousand. This account requires a \$300 minimum opening deposit. In addition to these accounts, RNB offers a standard array of checking and savings accounts.

### **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.