



SMALL BANK

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

PUBLIC DISCLOSURE

July 26, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Houston Community Bank, National Association
Charter Number 17020**

**11390 Veterans Memorial Drive
Houston, TX 77067**

**Comptroller of the Currency
Houston Field Office
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 CRA RATING: This institution is rated Satisfactory.

Houston Community Bank, National Association (HCB) is responsive to the credit needs of its community, including low- and moderate-income individuals and small businesses in Harris, Montgomery, and Fort Bend Counties. The following factors support this conclusion:

- The loan-to-deposit ratio exceeds the standard for satisfactory performance.
- Overall lending to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance, and consumer lending, in particular, exceeds the characteristics of the assessment area (AA).
- Overall geographic distribution of loans meets the standard for satisfactory performance, and consumer lending, in particular, exceeds the characteristics of the AA.

DESCRIPTION OF INSTITUTION

HCB is a \$132 million full service bank located in Harris and Fort Bend Counties. The bank has a main office at 11390 Veterans Memorial Drive in Houston, Texas and three branches. The Humble, Texas branch was opened during the prior Community Reinvestment Act examination and is located at 1515 Farm Market 1960 East Bypass very close to Montgomery County. A third location was opened November 9, 2001 in Sugar Land, Texas located in Fort Bend County. And, a fourth location opened on January 20, 2004 in Stafford, Texas also in Fort Bend County. HCB offers a full range of credit products within its assessment area including consumer loan products, commercial, residential real estate loan products, and municipal loans. The primary loan products are consumer, residential real estate, and commercial loans. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank was rated satisfactory at the prior examination dated March 15, 1999.

Please refer to HCB's CRA public file for more information about the institution.

DESCRIPTION OF HARRIS, MONTGOMERY, AND FORT BEND COUNTIES

The bank operates in a highly competitive market in the three largest and fastest growing counties in the Houston Metropolitan Area. Not only does this area have branches of all the nation's large banks, it also has many community banks competing directly in the consumer and small business market. The median family income for the Houston Metropolitan area is \$59,100 per year.

Harris County

Harris County is the third largest county in the United States with a population of over 3.4 million residents, and it covers 1,788 square miles. According to 2000 U.S. Census information, Harris County increased 21% in population between 1990 and 2000. Houston is the largest city in the county with a population of almost 2 million, the county seat, and the fourth largest city in

the United States. Houston is home to the Houston Livestock Show and Rodeo, the largest rodeo in the world attracting 1.8 million visitors per year. Houston also has the largest medical center in the world, the Texas Medical Center. Its economic impact is \$10 billion annually, 52 thousand people work in its facilities, and the center has 21 million square feet of space. Approximately 4.8 million patients are treated at the Texas Medical Center annually. Also, eighteen Fortune 500 companies and more than five thousand energy related firms are located in the city that is considered by many as the "Energy Capital" of the world. The Port of Houston is the nation's largest in international tonnage and second in total tonnage. Major employers include Continental Airlines, Administaff, Halliburton, Wal-Mart Stores, Exxon Mobil, Kroger Company, Memorial Hermann Healthcare System, and The University of Texas Medical Branch, all with at least 13 thousand employees each.

There are 667 thousand owner-occupied single-family housing units and 599 thousand rental housing units. The median value of a single-family residence is \$101 thousand. The county has 65 low-income census tracts, 223 moderate-income census tracts, 178 middle-income census tracts, and 176 upper-income census tracts. Also, it has 7 census tracts without a designation. The unemployment rate for Harris County as of November 2003 was 6.4%, a slight increase from the 2002 annual rate of 6.1%.

Montgomery County

Montgomery is north of Harris County, covers more than 1 thousand square miles, and is the fifteenth largest county in Texas. It has 39 census tracts in total with one low-income census tract, nine moderate-income tracts, eighteen middle-income tracts, and eleven upper-income tracts. The 1990 census reported the Montgomery County population as approximately 182 thousand. Current estimates by the Greater Conroe Economic Development Council indicate the current population is over 300 thousand, and the population is predicted to increase to 370 thousand by the year 2007.

Conroe is the county seat of Montgomery County. It is centrally located in the county and is approximately 45 miles north of downtown Houston. The Greater Conroe Economic Development Council estimates that the City of Conroe currently has a population of more than 38 thousand with continued growth expected. Conroe's economy has significantly diversified in the last twenty years with significant growth in manufacturing, retail, health care, biotechnology, construction, and tourism. Current employment opportunities are largely in the trade and service sectors. As is the case in Houston and Harris County, financial services competition in Conroe is intense. It has 14 branches of large financial institutions. Additional branches of Houston area banks are scheduled to open in the near future.

Fort Bend County

Fort Bend is adjacent to southwest Harris County, and it is one of the most affluent and fastest growing areas in the Houston Metropolitan Area. The assessment area has approximately 170 thousand residents now. Projections for 2020 predict a doubling of the population. Sugar Land is the largest city, and it is so close to Houston that it could be considered a suburb.

HCB's assessment area in Fort Bend includes the entire county. It has 58 census tracts with only

one census tract designated as low-income and four as moderate-income tracts. Middle tracts number 21, and the remaining 32 tracts are designated as upper-income. The county has 41 thousand owner occupied housing units and 14 thousand rental housing units. The single-family median home value is \$131 thousand. Over 37 planned communities are announced, under construction, or nearly complete with an average new home sales price of \$183 thousand. Many small and large financial institutions are in the county, and competition is intense. Major employers include Fort Bend Independent School District, Fluor Corporation, Lamar Independent School District, Unolocal Corporation, Schlumberger Company, Texas Department of Criminal Justice, and Fort Bend County. All these employers have more than two thousand employees. The 5.5% unemployment rate as of November 2003 increased from the 2002 annual rate of 4.5%.

We reviewed community contacts completed during the evaluations of other area banks and contacted a local Chamber of Commerce representative. The contact did not identify any significant credit needs not being met and spoke favorably of the performance of local banks.

Please refer to HCB's CRA public file for more information about the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on three areas of significant lending: consumer lending, residential lending, and commercial lending. Consumer loans were both the largest number of loans at 3,622 or 82% of the number of total loans and \$32.4 million or 28% of the dollar amount of the loan portfolio with an approximate total of \$117 million. All residential loan products were 275 or 6% of the portfolio loan number and a dollar amount of \$10.9 million or 9.3% of the total. In addition, commercial loans numbered 196 or 4.4% of the total and a dollar amount of \$13.2 million or 11% of the dollar total of the loan portfolio.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable considering HCB's size and the credit needs of the assessment area. The average loan-to-deposit ratio since the prior examination dated March 15, 1999 is 86% comparing favorably to a peer group average of banks in Harris, Montgomery, and Fort Bend Counties of 78% for the same period. Similarly, the bank's most recent ratio was 93% exceeding the peer group average of 79% at March 31, 2004.

Lending in Assessment Area

HCB satisfactorily originates a majority of loans in its assessment area. Lending in the assessment area was determined by using information from the bank's 2002 and 2003 Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) of 99 loans, a sample of 24 consumer and 20 commercial loan originations from 2002, and 26 consumer and 20 commercial loan originations from 2003 and 2004. This was a total of 189 loans. A majority of both the number and dollar amount of these loans were in the assessment area as reflected in the following table:

Lending in Harris, Montgomery, and Fort Bend Counties										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
HMDA 2002 & 2003	77	78	22	22	99	\$2,189	82	\$491	18	\$2,680
2002 Sample	40	91	4	9	44	\$1,405	95	\$79	5	\$1,484
2003/2004 Sample	40	87	6	13	46	\$1,611	94	\$105	6	\$1,716
Totals	157	83	32	17	189	\$5,205	89	\$675	11	\$5,880

Source: data reported under HMDA; bank analysis; sample of loans.

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

Overall, the level of lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance.

The following table displays consumer lending compared to households by income. Year 2002 lending was compared to 1990 census information, and the 2003 and 2004 lending was compared to 2000 census information. In addition, the majority of the randomly chosen sample was indirect auto dealer lending, a significant portion of the consumer loan portfolio. HCB's level of lending was:

Borrower Distribution of Consumer Loans in Harris, Montgomery, and Fort Bend Counties 2002, 2003, and 2004								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans 2002	23	35	16	50	19	5	42	10
Consumer Loans 2003/2004	23	55	17	5	18	20	42	20

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

As shown in the above table, HCB's overall lending to low- and moderate-income borrowers exceeds the characteristics of the assessment area.

HCB's level of lending to borrowers of different incomes for residential real estate was evaluated based on information collected by the bank for the HMDA-LAR for 2002 and 2003. As with consumer lending, 2002 lending was compared to 1990 census information and 2003 was compared to 2000 census information for families by income. The following table details the bank's performance:

Borrower Distribution of Residential Real Estate Loans in Harris, Montgomery, and Fort Bend Counties – 2002 and 2003								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
HMDA 2002	22	0	17	17	20	31	41	52
HMDA 2003	22	0	17	21	19	30	42	49

Source: data reported under HMDA; bank analysis; U.S. Census data.

Lending to moderate-income borrowers is similar to the characteristics of the assessment area. The lack of lending to low-income borrowers was not a concern based on overall consumer lending and the lack of opportunity for lending to low-income borrowers because of a low percentage of owner occupied homes in the assessment area. See the Geographic Distribution section of this Performance Evaluation for additional information.

Commercial lending to businesses was evaluated using a random sample of loans originated in 2002 by bank officers compared to Dunn and Bradstreet (D & B) information for the same year. For lending in 2003 and 2004, loan originations were compared to 2003 D & B information because 2004 information is not yet available. Overall, the level of lending is satisfactory. The following two tables illustrate the bank's level of lending to businesses of different sizes:

Table 2C - Borrower Distribution of Loans to Businesses in Harris, Montgomery, and Fort Bend Counties – 2002				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67	6	27	100%
% of Bank Loans in AA by #	50	50	0	100%
% of Bank Loans in AA by \$	23	77	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Table 2D - Borrower Distribution of Loans to Businesses in Harris, Montgomery, and Fort Bend Counties – 2003/2004				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62	6	32	100%
% of Bank Loans in AA by #	60	40	0	100%
% of Bank Loans in AA by \$	69	31	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Lending in 2002 is less than the characteristics of the assessment area; however, lending in 2003 and 2004 is similar. In 2002, officers were concentrating on lending to municipalities, and commercial lending was often to long established customers. In addition, officers saw a decrease in commercial loan applications after the events of September 11, 2001. In 2003 and 2004,

applications for commercial loans increased, and additional loan officers were added to the lending staff increasing the level of lending to small businesses.

Geographic Distribution of Loans

Overall, the geographic distribution of loans meets the standards for satisfactory performance.

The following table displays the geographic distribution of HCB’s consumer loan lending based on random samples. Year 2002 information is compared to the 1990 census, and Year 2003 and 2004 lending is compared to the 2000 census as follows:

Geographic Distribution of Consumer Loans in Harris, Montgomery, and Fort Bend Counties 2002, 2003, and 2004								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans 2002	8	0	26	45	34	45	32	10
Consumer Loans 2003/2004	6	15	29	45	31	20	34	20

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

As shown above, the overall geographic distribution of lending to consumers exceeds the characteristics of the assessment area considering both years and the lending in moderate-income census tracts.

The geographic distribution of residential real estate loans was evaluated using the same information from the HMDA-LAR, as was the borrower distribution of residential real estate loans. This information was compared to the percentage of owner occupied homes in the assessment area in 2002 using 1990 census information and 2003 using 2000 census information. The following table summarizes HCB’s level of lending:

Geographic Distribution of Residential Real Estate Loans in Harris, Montgomery, and Fort Bend Counties – 2002, 2003, and 2004								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
HMDA 2002	5	0	21	17	34	29	40	54
HMDA 2003	3	0	23	21	30	30	44	49

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

As shown in the previous table, the assessment area has a low level of owner occupied homes therefore limiting the lending opportunities to low-income borrowers. The level of lending to moderate-income borrowers is similar to the characteristics of the assessment area.

For the geographic distribution of loans, we evaluated the bank's 2002 lending by comparing to Dunn and Bradstreet information for 2002. For 2003 and 2004, we compared the bank's lending to 2003 Dunn and Bradstreet information. Information for 2004 is not yet available. HCB's level of lending is reflected in the following table:

Geographic Distribution of Loans to Businesses in Harris, Montgomery, and Fort Bend Counties 2002, 2003, and 2004								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial 2002	5	5	23	25	31	45	41	25
Commercial 2003/2004	5	10	25	20	26	50	43	20

Source: Loan sample; Dunn and Bradstreet data.

The geographic distribution is similar to the characteristics of the assessment area.

Responses to Complaints

HCB did not receive any consumer complaints regarding its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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