

PUBLIC DISCLOSURE

February 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Texas National Bank
Charter Number: 23266**

**1150 West Main Street
Tomball, Texas 77377-1050**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza, 500 North Akard
Dallas, Texas 75201-3394**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **Texas National Bank** prepared by **The Office of the Comptroller of the Currency** the institution's supervisory agency, as of **February 1, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated satisfactory.

Texas National Bank has a *satisfactory* record of meeting credit needs within the community. The bank meets or exceeds the factors considered to assign the rating as evidenced by:

- ! A satisfactory distribution of loan originations to borrowers of different income levels and businesses of different sizes:
- ! A geographic distribution of loan originations within the assessment area similar to the demographic characteristics of the area;
- ! A loan to deposit ratio that exceeds the standards for satisfactory performance; and,
- ! A majority of the loan originations within the bank's assessment area.

The following table indicates the performance level of **Texas National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>TEXAS NATIONAL BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the bank received a charter.		

DESCRIPTION OF INSTITUTION

Texas National Bank is a \$26 million institution servicing its customers through one main location and an automated teller machine (ATM) in the drive-in facility located in Tomball, Texas. To help meet the credit needs of its community, Texas National Bank offers general loan products for consumers and small businesses. Lending is the bank's primary focus, and the bank concentrates on consumer lending. Net loans at December 31, 1998 represented 80% of total assets. In addition, a significant portion of the bank's lending is in indirect dealer loans for vehicles. At December 31, 1998, the indirect portfolio was \$13.3 million or 63% of loan. Lending activity is in the following categories: loans to individuals (72%), one - four family residential property (13%), commercial and industrial (5%), and other loans (1%). The bank does not have any legal, financial, or other factors that impede the bank's ability to help meet the credit needs in its assessment area. The bank offers loan applications that are online and can be printed by the applicant, completed, and brought to the bank.

As a recently chartered bank opening on October 14, 1997, this is the bank's first CRA examination. The examination covers the period since the bank opened through February 1, 1999.

The bank offers a variety of deposit accounts and other banking services. In addition, the bank offers Internet services including account inquires, transfers, bill paying, detailed transaction histories, account statements online, viewing of imaged checks, and electronic payments. Debit and credit originations through an automated clearing house are also offered.

Description of Texas National Bank Assessment Area

The assessment area meets the requirements of the regulation and does not arbitrarily exclude low-or moderate-income geographies. Texas National Bank is located in the Houston Metropolitan Statistical Area (MSA). The entire MSA is geographically large and has a population in excess of three million, and it was not chosen as the assessment area. Management and the Board of Directors concluded an analysis and finalized the bank's assessment area during the examination. The assessment area decision was primarily based upon analyzing loans and deposits to select an area having a high concentration of deposits as well as loans. The area chosen has an 89% loan to deposit ratio. Another significant consideration was the bank's ability to adequately serve the assessment area. The assessment area chosen has a population of about 240 thousand.

The assessment area includes thirty census tracts in Harris County, ten tracts in

Montgomery County, and one tract in Waller County. It includes tracts with the following characteristics: two moderate income (5%), twelve middle income (29%), and twenty-seven upper income tracts (66%). The assessment area does not include any low income census tracts. Although the assessment area does not have any low income census tracts, low income families live throughout the assessment area. The income levels and percentage of families within the assessment area are low (9.82%), moderate (11.10%), middle (19.31%), and upper (59.78%). Approximately 6% of the families live below the established poverty level. The weighted average of the Metropolitan Statistical Area (MSA)/Non-MSA Census Median Family Income was \$36,886 as of 1990. The updated MSA Median Family Income for 1998 is \$50,400.

Texas National bank is subject to intense competition from a number of non-bank financial entities, branches of regional and multinational corporations, and branches of other financial institutions. Ten financial institutions are located in the immediate vicinity.

We contacted a representative of the business community during our examination to determine credit needs of the community and performance of the institutions. We found Tomball and the bank's assessment area is experiencing significant growth in both the business and residential sectors, and that growth is expected to continue. A significant factor is the widening and renovation of State Highway 249. Another is the close proximity to major employers in the northwest area of Houston, Texas. Major credit needs are consumer, residential real estate, and small business loans. Our community contact did not reveal any credit needs not being met.

The assessment area has approximately 89 thousand housing units with about 77% being one - four family units and 17% multi-family units. Mobile homes or trailers account for 6%. Owner occupied units are 65% of the total housing units. The median housing value is \$96 thousand and the median monthly gross rent is \$491. The housing weighted average of the median year built is 1980. However, this statistic does not reflect a very recent surge in new home construction. Small businesses in the area are predominantly retail trade. The major employers and number of employees are Compaq (14,000), Tomball Independent School District (905), and Tomball Regional Hospital (806). There are three other smaller major employers in the area with less than 300 employees each. Revenue information was not available on all businesses in the area.

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

Texas National Bank actively attempts to meet the credit needs of its assessment area. The loan-to-deposit ratio has averaged 83% for the five quarters since the bank opened and clearly exceeds the standards for satisfactory performance. The ratio has shown significant growth especially considering the short time the bank has been open. The bank's average loan-to-deposit ratio is above a peer group average of banks in Harris, Montgomery, and Waller Counties with less than \$250 million in assets. In addition, the ratio exceeds the ratios of a peer group of national banks between \$25 and \$50 million in a metropolitan area. Table 1 shows the bank's ratios and a comparison to the peer groups for the quarters information is available:

Table 1

For the Quarter Ending	Texas National Bank Loan to Deposit Ratio	Local Peer Group Loan to Deposit Ratio	National Peer Group Loan to Deposit Ratio
December 31, 1997	61.84%	59.95%	75.43%
March 31, 1998	77.11%	61.45%	75.14%
June 30, 1998	95.23%	61.84%	75.80%
September 30, 1998	86.94%	61.85%	73.13%
December 31, 1998	94.80%	63.81%	not available
Average Loan to Deposit Ratio	83.18%	61.78%	74.88%

LENDING IN THE ASSESSMENT AREA

The bank's level of lending in the assessment area is a majority and meets the standards for satisfactory performance. An analysis prepared by a commercial vendor using bank information revealed a majority of the number and dollar amount of the bank's loans were within its assessment area. The following table details that information:

Table 2

LOANS IN THE BANK'S ASSESSMENT AREA	INSIDE AREA	OUTSIDE AREA	TOTAL
Number of Loans	934	464	1,398
Percentage of Number of Loans	67%	33%	100%
Dollar Amount of Loans	\$14.1 Million	\$6.6 Million	\$20.7 Million
Percentage of Dollar Amount	68%	32%	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's lending meets the standards for satisfactory performance. The following table illustrates the numbers of loans to each category of individuals:

Table 3

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS										
Income of Families	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Area Demographic Characteristics	10%		11%		19%		60%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
Consumer-Direct	39	6%	86	14%	193	31%	306	49%	624	100%
Consumer-Indirect	17	17%	30	30%	21	21%	32	32%	100	100%
Mortgage	0	0%	4	20%	6	30%	10	50%	20	100%
Home Improvement	0	0%	0	0%	6	67%	3	33%	9	100%
Total	56	7%	120	16%	226	30%	351	47%	753	100%
Revenue Ranges	< \$100M		\$100M--\$500M		\$500--\$1MM		> \$1MM			
Commercial	7	22%	10	31%	7	22%	8	25%	32	100%

The consumer-direct, home mortgage, home improvement and commercial information analysis is based on all of the bank's loans. The consumer-indirect loan information is a

sample of one hundred loans. As the above table illustrates, the percentage of lending to low-and moderate-income borrowers does not significantly differ from the demographic characteristics of the area. Also, it illustrates the bank's primary product is consumer lending, both direct and indirect. The lack of lending in the home mortgage and home improvement products is not a concern. The bank does not actively engage in these two products and usually refers home mortgage applications to two other lenders with mortgage departments.

Geographic Distribution of Loans

The bank's geographic distribution of loans is reasonable and meets the standards for satisfactory performance. The bank does not have any low income census tracts in its assessment area. The percentage of loans in moderate income tracts is the same as the demographic characteristic of the assessment area. Table 3 summarizes all of the loan originations within the bank's assessment area and illustrates a reasonable geographic distribution of loans within the assessment area:

Table 3

GEOGRAPHIC DISTRIBUTION OF LOANS										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Area Demographic Characteristics	0%		5%		29%		66%		100%	
Count	0		2		12		27		41	
	#	%	#	%	#	%	#	%	#	%
Loan Types										
Consumer	0	0%	40	5%	479	57%	327	38%	846	100%
Real Estate	0	0%	4	9%	25	53%	18	38%	47	100%
Commercial	0	0%	0	0%	38	93%	3	7%	41	100%
Total Loans	0	0%	44	5%	542	58%	348	37%	934	100%

As shown in the above table, the bank lends in all of its census tracts regardless of the

income level of the tract. Conspicuous gaps in the lending are not evident, and areas of low penetration do not exist.

Responses to Complaints

During this evaluation period, Texas National Bank did not receive any consumer complaints regarding its CRA performance. However, the bank has a procedure in place to handle consumer complaints.

Record of Compliance with Antidiscrimination Laws

A Fair Lending review was performed at the same time as this CRA examination. Texas National Bank is in compliance with the provisions of antidiscrimination laws and regulations. We found no evidence of practices intended to discourage potential borrowers from applying for credit at this bank. In addition, we did not find any violations of the substantive provisions of the antidiscrimination laws and regulations were identified. The time period for our review began with the opening of the bank in October of 1997 through the date of the examination, February 1, 1999. The scope included reviewing all adverse action notices to identify marginal applicants. We concentrated on comparing approvals for revolving credit to a white control group to applicants not approved with Hispanic surnames as the prohibited basis group.