



PUBLIC DISCLOSURE

August 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Independence Bank, N.A.
Charter Number 18076**

**6910 North Eldridge Parkway
Houston, Texas 77041**

**Office of the Comptroller of the Currency
Southwestern District Office
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 **Independence Bank, N.A., Houston, Texas** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 27, 1998. 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.**”

Independence Bank, N.A. has a satisfactory record of meeting credit needs within the community, as evidenced by the following:

- A reasonable loan to deposit ratio;
- A satisfactory record of lending to borrowers within the assessment area;
- A reasonable distribution of loans originated to borrowers of different income levels and businesses of different sizes; and,
- A satisfactory geographic distribution of loans among all census tracts.

The following table indicates the performance level of **Independence Bank, N.A.** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Independence Bank, N.A. Houston, Texas 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 prior examination.		

Description of Institution:

Independence Bank, N.A. (IB) is a \$68 million full service bank which serves the far west and northwest sector of Harris County. The bank offers drive-in facilities and Automated Teller Machines at all three locations. The bank offers a limited alternative delivery system via their telephone dial in voice response system. This system enables customers to check loan and deposit balances and make transfers between accounts.

IB's main office is located at the corner of FM 529 and North Eldridge Parkway in the far Northwest area of Houston, Texas, Harris County, approximately twenty-two miles west northwest of downtown Houston. This location was opened in January 1984. This trade area is primarily characterized by large residential developments, major retail centers, and smaller businesses. The main office is located in a middle income tract with some moderate income tracts in the trade area. IB also has a branch facility at Westheimer and Gray Falls which opened in January 1994, located approximately twelve miles south of the main office. This location is in a high income census tract with moderate income census tracts also in the trade area. Both of these locations are characterized by large residential developments, major retail shopping centers, small businesses and intense competition from numerous banks and alternative financial entities.

IB opened a second branch facility approximately six miles northwest of the main office in July 1996, after the last CRA examination. This facility is at 12100 Huffmeister in Cypress, Texas. This area is also a rapidly growing predominately residential community and a "bedroom community" to Houston (Harris County), approximately twenty-five miles northwest of downtown. The area is characterized by retail businesses with upper middle and upper income residential neighborhoods. This branch facility is located in a high income census tract and is predominately surrounded by upper and middle income tracts. Commercial real estate developments have materialized in the past several years.

The bank is independently owned with approximately 135 shareholders. There are no affiliates or subsidiaries of IB.

The bank's primary business focus is real estate lending and lending to small businesses. At June 30, 1998, construction and land development loans comprised 4% of the loan portfolio. Commercial and industrial loans totaled 28% of the loan portfolio, loans to individuals made up 18%, loans secured by 1-4 family residential properties made up 13%, and 37% was secured by other commercial real estate.

There are no legal, financial or other factors impeding IB's ability to help meet the credit needs of its assessment area.

The last CRA examination of IB was conducted as of February 13, 1995, at which time the bank received a "Satisfactory" rating.

Description of IB's Assessment Area

IB's assessment area includes the northwest portion of Harris County within the Houston Metropolitan Statistical Area (MSA). This area is bounded by Highway 59 on the south (approximately 20 miles from the main office), the Fort Bend County line on the west (approximately 20 miles from the main office), the Montgomery County line on the north (approximately 25 miles from the main office), and I.H. 45 and Loop 610 on the east (approximately 15-20 miles from the main office). The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies.

The local Harris County economy is strong and continues to grow moderately and create jobs. In 1997, the Houston MSA created some 85,000 new jobs, although job growth has slowed somewhat during 1998 due to falling oil prices. Large new residential and retail areas are under development and construction. Major shopping malls have opened in the past few years and housing construction continues at a strong pace. While the oil/gas and petrochemical industries continue to play a large part in the economy's overall health, significant diversification has occurred into other industries. Financial and insurance related businesses thrive while retail stores and restaurants are enjoying solid growth. The Houston area is also home to a number of large high-tech computer and related companies. The Texas Medical Center and the National Aeronautics & Space Administration (NASA) also provide employment opportunities. Competition for banking services is high in Harris County, with hundreds of offices of commercial banks, savings institutions, credit unions, brokerage firms, finance companies, and other companies providing financial services.

The following chart reflects population and income characteristics of IB's assessment area. The assessment area does not exclude Low-and-Moderate Income (LMI) areas.

Income and Population Characteristics of IB's Assessment Area	
	Northwest Harris County
1990 Census Population	1,085,877
1990 Census Weighted Average Median Family Income	\$46,294
1997 Updated H.U.D. Weighted Average Median Family Income	\$50,400

The following charts depict some of the demographic information for IB's assessment area which is northwest Harris County.

Northwest Harris County Assessment Area				
Type of Census Tract	Number of Census Tracts	Percentage of Total Number of Census Tracts	Number of Households in Census Tracts	Percentage of Households in Census Tracts
Low Income	6	3%	9,955	2%
Moderate Income	31	18%	64,126	16%
Middle Income	68	38%	163,340	39%
Upper Income	72	41%	176,804	43%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

The loan to deposit ratio is reasonable when compared to other commercial banks within the assessment area and to the Houston MSA in general. The loan to deposit ratio was 56% at June 30, 1998. The quarterly loan to deposit ratio average for IB since the last CRA examination is 67%. A comparison of IB to approximately thirty-five other commercial banks operating in the assessment area reflected that IB ranked twenty-sixth with a loan to deposit ratio of 56% at June 30, 1998. The average loan to deposit ratio for the thirty-five banks is 61% and the range is a low of 24% to a high of 89%. Due to numerous changes in senior management and other lending staff in the last six months, IB has experienced a slightly declining loan to deposit ratio.

Lending in the Assessment Area

A majority of the dollar volume and number of IB's loans are within its assessment area. The chart on the next page reflects an analysis performed by management of the percentages of the dollar amount of loans made within the assessment area. This sample included 84% of the total dollar volume of the loan portfolio and 87% of the total number of loans.

Lending Within and Outside of the Assessment Area As of June 30, 1998		
	Percentage of the Dollar Volume of Loans	Percentage of the Number of Loans
Loans Within the Assessment Area	63%	73%
Loans Outside of the Assessment Area	37%	27%

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

The lending patterns of this institution indicate the bank is doing an excellent job of lending to small businesses and a reasonable job of lending to consumers in the assessment area.

Information on business revenue or individual borrowers is not collected by the bank. IB is primarily commercial and business oriented. As of June 30, 1998, the loan portfolio consisted of 69% commercial and real estate lending with another 18% of loans to individuals and 13% in 1-4 single family residences.

Since this income information is not available, loan size was used by proxy to determine lending to businesses of different sizes. Of the total commercial and non-residential real estate loans, 93% were originated for less than \$1 million. Additionally, 91% of the 357 small business loans originated were for less than \$250 thousand. A management review of originations during 1997 and the first six months of 1998 indicates that 86% of the 687 assessment area loans were originated for less than \$50 thousand. Further, the average size of business loans originated during this period was \$33 thousand and the average size of consumer loan originations was \$10 thousand.

Geographic Distribution of Loans

There is reasonable distribution of loans extended within the moderate, middle and upper income census tracts. No loans were originated in low income census tracts. The bank has loans extended in 60% of the census tracts in its assessment area. The following chart reflects the distribution of all types of loans within the bank's assessment area by income designation of the census tract. This analysis is based on a sample of 796 loans (approximately 73% of the total loan portfolio) which originated during 1997 and the first six months of 1998.

Geographic Analysis of Loans Within the Assessment Area As of June 30, 1998			
Type of Census Tract	Percentage of the Number of Loans Within the Type of Census Tract	Percentage of the Dollar Amount of Loans Within the Type of Census Tract	Percentage of Census Tracts by Income Characteristic
Low Income	0%	0%	3%
Moderate Income	9%	11%	18%
Middle Income	30%	35%	38%
Upper Income	61%	54%	41%

This distribution is reasonable when considering the geographic location of the three bank offices which are located in upper and middle income census tracts and the large geographic size of the assessment area. The six low income census tracts included within the assessment area are not close to any IB office location. Further, only 2% of the area households live in these low income census tracts.

Summary

The bank is in substantial compliance with the spirit, intent, and technical aspects of anti-discrimination laws. No violations of fair lending laws were noted. Management is providing appropriate employee training programs to help ensure adherence to fair lending laws. Management has also adopted satisfactory policies and procedures to promote equal credit opportunities for all applicants regardless of race, color, religion, national origin, sex, marital status, age, or the fact that all or part of the applicant's income is derived from a public assistance program. The loan to deposit ratio, lending in the assessment area, lending to borrowers of different incomes and businesses of different sizes, and the geographic distribution of loans is reasonable for the resources of the institution.