



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

August 3, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bayshore National Bank
Charter Number 15468**

**Main and Rusk Streets
1001 Highway 146 South
LaPorte, Texas 77571**

**Office of the Comptroller of the Currency
Houston East Field Office
1301 McKinney Street, Suite 3750
Houston, Texas 77010**

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 **Bayshore National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 3, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25. A copy of this document should be placed in the bank's public file.*

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

Bayshore National Bank has a satisfactory record of meeting credit needs within the community.

- < The bank's loan-to-deposit ratio is reasonable.
- < A majority of loans originated by Bayshore National Bank are within the assessment area.
- < The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- < The bank's record of lending to borrowers of different income levels, including low-and moderate-income individuals and businesses of different sizes is reasonable.

DESCRIPTION OF INSTITUTION

Bayshore National Bank is wholly owned by Bay Bancshares, Inc. (a publicly traded holding

company). It is a \$ 298 million full service bank with the main office in LaPorte, Texas. Customers are also served through nine (9) full service branches, ten (10) ATMs and drive-in facilities, and three Loan Production Offices located throughout the bank's designated assessment area. Five (5) new branches were opened in the past two years. One branch was closed. Bayshore National Bank offers convenient banking hours and services at all locations. The bank offers general and specialized loan products for consumers and small businesses. The bank's primary business focus is consumer lending. Specifically, the bank has been active in originating indirect consumer loans. As of June 30, 1999, net loans represented 62 percent of total assets. Lending activity was in the following categories: loans to individuals (55 percent) which includes single payment, consumer as well as indirect consumer loans; one to four family residential loans (7 percent), loans secured by real estate (26 percent) include loans secured by nonfarm nonresidential properties and construction and land development; and commercial and industrial loans (12 percent). Also, through its affiliated mortgage company the bank originates and sells home purchase loans in the secondary market. In 1998 and 1999 the mortgage company closed approximately 244 loans of this type. These loans are also an indication of the bank's efforts to meet the community credit needs. No legal restrictions exist that could impede the bank's ability to meet the credit needs of the assessment area. Bayshore National Bank's CRA Performance was last evaluated February 13, 1997 and a rating of "Satisfactory" was assigned.

DESCRIPTION OF ASSESSMENT AREA

Bayshore National Bank has defined the assessment area as the Greater Houston Primary Metropolitan Statistical Area (PMSA). The assessment area meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income geographies. The assessment area incorporates Harris County and the seven contiguous counties surrounding Harris County. These counties include: Brazoria, Chambers, Fort Bend, Galveston, Liberty, Montgomery and Waller counties. Bayshore National Bank is located in a middle income census tract in the Houston Metropolitan Statistical Area. A breakdown of the census tracts within the assessment area (PMSA) is detailed in the Table 1.

Table 1

Census Tracts Within the Assessment Area (AA)
Census Tracts

County	Low Income Tracts	Moderate Income Tracts	Middle Income Tracts	Upper Income Tracts	NA
Harris	73	179	169	147	14
Brazoria	0	11	34	5	5
Chambers	0	2	2	1	1
Fort Bend	1	4	21	23	0
Galveston	9	16	25	13	4
Liberty	1	7	5	0	0
Montgomery	1	9	18	11	0
Waller	1	3	1	2	1
Total	86	231	275	202	25

The assessment area (PMSA) has a combined population of about 3.7 million, with 13 percent living below the established poverty level. The assessment area has approximately 1,537 thousand housing units with 66 percent being one to four family units. The number of owner occupied units is high, accounting for 49 percent of the one to four family units. The percentage of vacant housing units is low at 13 percent of the total. The median housing value is \$ 72,774 and the median monthly gross rent is \$ 417. According to the 1990 census, the weighted average Metropolitan Statistical Area (MSA) Non-MSA's Census Median Family Income was \$ 36,930. The updated Median Family Income of all Non-MSAs is \$ 53,957.

Bayshore National Bank has a high degree of competition from numerous commercial banks, credit unions, and consumer finance companies located in counties and nearby areas. The bank also competes with branches of multinational banks, mortgage banking companies, insurance companies, and government agencies.

LaPorte, Texas is a suburban community located adjacent to Houston, Texas. Access to LaPorte has been enhanced with the development of the Fred Hartman Bridge. The LaPorte-Bayshore area has experienced significant growth in the past few years. The economy is strong with significant

development (new businesses, schools, and homes). Several businesses have been built or renovated. Major contributors to the local economy are retail trade, service providers, and manufacturing. A large portion of the community work at the Port of Houston and the numerous petrochemical plants located throughout the area. Overall, unemployment in the LaPorte-Bayshore area is low.

COMMUNITY'S CREDIT NEEDS

Bayshore National Bank has identified consumer loans as the assessment area's primary credit needs. One community organization was contacted during the examination to determine economic conditions, community credit needs, and other opportunities available for bank involvement. This contact indicated the banks in the area are responsive to needs of the community in both lending and providing service. The community contact also identified the need for multi family housing as the population of the area is growing. No legal restrictions exist that could impede the bank's ability to meet the credit needs of the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Bayshore National Bank actively attempts to meet the credit needs of its assessment area. The bank's loan-to-deposit ratio is reasonable based on the community's credit needs. This ratio exceeds other similarly situated banks (average of 32 percent, and ranged from 23 percent to 54 percent).

The loan-to-deposit ratio as of June 30, 1999 was 70 percent. Since the prior CRA Performance Evaluation dated February 3, 1997, the bank's loan-to-deposit ratio has averaged 67 percent. Bayshore National Bank's ratios for the five most recent quarters are shown in Table 2.

Table 2

QUARTER ENDED	LOAN-TO-DEPOSIT RATIOS
June 30, 1999	70%

QUARTER ENDED	LOAN-TO-DEPOSIT RATIOS
March 31, 1999	63%
December 31, 1998	68%
September 30, 1998	68%
June 30, 1998	67%
Five Quarter Average	68%

LENDING IN THE ASSESSMENT AREA

The bank's lending in the assessment area exceeds the standards for satisfactory performance.

An examiner analysis performed during the examination included a sample total of sixty-six (66) consumer, home equity, indirect consumer and commercial loan files. This analysis revealed that 92 percent of the number and 95 percent of the dollar volume were within the assessment area. Detail relating to this analysis is shown in Table 3.

Table 3

1999 LENDING IN THE ASSESSMENT AREA		
Loan Type	% Within AA(by #)	% Within AA (by \$)
Home Equity	93%	93%
Consumer	80%	87%
Indirect	95%	91%
Commercial	92%	97%

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

The bank's lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance.

Overall, Bayshore National Bank's level of lending to individuals of different income levels and businesses of different sizes is reasonable. The bank does not routinely collect income data on loans and no internal analysis of lending patterns had been performed. Since indirect consumer loans represented the largest portion of the bank's loan portfolio, a sample of indirect consumer loan files was reviewed during the examination. This review revealed loan applications are solicited from all income levels and is in line with the profile of the assessment area. In addition, our sample of commercial loans revealed a large portion of loans originated were to small businesses with revenues less than \$1 million per year. Table 4 summarizes our review.

Table 4

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	22%		17%		21%		40%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
Consumer	4	21%	3	16%	2	10%	10	53%	19	100%
Revenue Ranges	<\$100M		\$100M--\$500M		\$500--\$1MM		>\$1MM		Total	
Commercial	0	0%	4	33%	2	17%	6	50%	12	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's geographic distribution of loans meets the standards for satisfactory performance.

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. Our sample of loan originations from the bank's indirect consumer and commercial loan portfolios revealed a reasonable geographic distribution of loans. The sample analysis reflects lending in all tracts. The percentage of loans closely approximates the area demographic characteristics. Table 5 is based upon this information and details the distribution of loans within the assessment area.

Table 5

GEOGRAPHIC DISTRIBUTION OF LOANS												
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		NA		Total	
Area Demographic Characteristics	11%		28%		34%		25%		3%		100%	
Count	86		231		275		202		25		819	
	#	%	#	%	#	%	#	%		#	%	
Loan Types												
Consumer	1	5%	2	11%	7	37%	9	47%	0	0%	19	100%
Commercial	0	0%	2	17%	3	25%	7	58%	0	0%	12	100%
Total Loans	1	3%	4	13%	10	32%	16	52%	0	0%	31	100%

RESPONSE TO COMPLAINTS

Bayshore National Bank has not received any consumer complaints regarding its CRA performance since the prior CRA examination. However, the bank has satisfactory procedures in place to handle CRA related consumer complaints.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

A Fair Lending review was performed in conjunction with the CRA examination. The scope of the Fair Lending examination included a determination as to whether all loan applicants are being treated equally and an evaluation of the bank's level of compliance with the Equal Credit Opportunity Act (ECOA), Fair Housing Act (FHA), and the Home Mortgage Disclosure Act (HMDA). A sample of home improvement loan applications (received during the first seven months of 1999) were reviewed. Several technical violations of the ECOA and the HMDA were cited during the examination. However, no violations of the substantive provisions of the anti-discrimination laws and regulations were noted. The examination did not reveal evidence of discrimination on a prohibited basis.

OTHER CONSIDERATIONS

Through the Mortgage Division, Bayshore National Bank is very involved in promoting affordable housing in their market. Lending personnel specifically of the mortgage division are involved in the following lending related activities:

- < Participation in the Houston Housing Partnership Program, which offers up to \$9,500 in down payment and closing cost assistance to low-moderate income buyers in the city limits of Houston.
- < Involvement with the Southwest Texas Housing Finance Corporation, on a number of low-to-moderate income housing programs and single family and multifamily programs, which provide down payment and closing cost assistance, construction financing and permanent financing.
- < Bayshore National Bank is one of two approved lenders for the Baytown Housing Assistance Program.
- < Bayshore National Bank also participates in various counseling workshops, educational seminars, and committees which provide home buyer counseling specifically, to potential low and moderate income home buyers.