



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 13, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Independence Bank, National Association
Charter Number 24263

13100 Northwest Freeway, Suite 100
Houston, [TX] [77040]

Office of the Comptroller of the Currency

Houston Field Office
1301 McKinney Street, Suite 1410
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.

Independence Bank, N.A. reflects satisfactory lending performance in its efforts to meet credit needs of its community, including low- and moderate-income individuals and geographies in its assessment area (AA). Factors that support the overall rating include:

- A majority of loans are in the bank's AA.
- The loan-to-deposit (LTD) is more than reasonable given the bank's size, financial condition, and AA credit needs.
- The geographic distribution of business loans, the bank's primary loan product, reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

We completed a full-scope review of the bank's Community Reinvestment Act (CRA) activities in the AA. Our review was focused on the primary loan product both by number and dollar amount of loans to businesses. This product was assigned the most weight in arriving at our conclusion as to the bank's performance. In addition, we reviewed a secondary loan product of residential real estate loans that was second to business loans in the number of loans originated. Residential real estate lending was assigned less weight in arriving at our conclusions.

For the borrower gross revenue distribution of loans to businesses, we selected a statistically valid sample of 26 loans of which 21 loans were originated in the AA during 2008, 2009, and as of January 26, 2010. For residential loans, our sample consisted of all owner-occupied purchase money, refinance, and home improvement loan originations in 2008, 2009, and as of January 26, 2010 for a total of 11 loans, six (6) of which were originated in the AA. We determined the information reported on the HMDA-LAR to be reliable.

DESCRIPTION OF INSTITUTION

Independence Bank, N.A. is a full service and independently owned institution located in northwest Houston, Texas. The bank was chartered on May 13, 2002, not owned by a holding company, but by many shareholders with small percentages. Independence Bank has a main location at 13100 Northwest Freeway, Houston, TX, a middle-income census tract (CT). In addition, the bank has two branches located at 1455 West Loop South, Houston, TX and 1235 Clear Lake City Blvd, Houston, TX, both in upper-income CTs.

All branches have reasonable operating hours and drive-thru facilities to meet the community's needs. All of the branch lobby hours are 9:00 AM until 5:00 PM Monday

through Friday. In addition, at all locations the drive-thru facility hours are 8:00 AM to 5:30 PM Monday through Friday. The bank offers remote deposit capture which allows customers to make deposits electronically with a cutoff time to 5:00 PM every week day, for these electronic transactions.

Total bank assets of \$150 million were reported as of September 30, 2009 with a Tier One Leverage Capital ratio of 10.06 percent. The loan portfolio represents 62 percent of total assets. The primary lending focus is business lending at \$46.8 million or 49 percent of the loan portfolio and residential real estate at \$26 million or 27 percent. Independence offers many other loan products; however, these are the primary products. In addition to a variety of loan products, Independence Bank offers several deposit products including business, personal, low-cost, and money market checking accounts, savings accounts, individual retirement accounts, and certificates of deposit. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA.

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

DESCRIPTION OF HARRIS COUNTY

The bank's AA is all of Harris County. Harris County is part of the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA). Harris County in conjunction with nine neighboring counties constitutes the Houston Metropolitan Area (HMA).

Harris County is a highly competitive market for financial services. Financial service providers include branches of the nation's largest banks as well as many community banks. Also competing in the small business market are credit unions, mortgage companies, finance companies, and other financial service providers.

Harris County is the third largest county in the United States with a population of over 3.9 million, and covers a land area of 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 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, 75 thousand people work in its facilities, and the center has 21 million square feet of space. Approximately 5 million patients are treated at the Texas Medical Center annually. Also, 18 Fortune 500 companies and more than 5 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 more than 13 thousand employees each.

There are 798 thousand owner occupied single-family housing units and 562 thousand rental housing units. The median value of a single-family residence is \$132 thousand,

and the weighted average monthly gross rent is \$796. The median family income for Harris County is \$59,097. Harris County has a total of six hundred forty nine (649) census tracts (CTs). Of the CT income designations, sixty three (63) or 10 percent are low-income CTs and two hundred twenty three (223) or 34 percent are moderate-income CTs. Middle- and Upper-income CTs total one hundred seventy nine each (179) or 28 percent of the total respectively. The bank has seven tracts in its AA that is designated Unknown, without an income designation. The county also has a large number of financial institutions of all sizes offering a wide variety of products and services, and competition is intense. The average unemployment rate for Harris County during 2008 was 4.8 percent, an increase from the 2007 annual rate of 4.3 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is more than reasonable given Independence Bank's size and the credit needs of the AA. Since the prior CRA examination, the quarterly LTD ratio average is 67.35 percent. It is in line with the 78.25 percent average LTD ratio of peer group banks with less than \$500 million in assets in Harris County.

Lending in Assessment Area

Lending in the AA is satisfactory. A majority of loans were originated both by number and dollar within the AA as shown in the following table:

| Table 1 - Lending in Independence Bank Assessment Area (AA) | | | | | | | | | | |
|--|-----------------|-------|---------|-------|-------|------------------------|-------|---------|-------|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| | Residential | 6 | 54.55 | 5 | 45.45 | 11 | 1,715 | 50.28 | 1,696 | 49.72 |
| Business | 21 | 80.77 | 5 | 19.23 | 26 | 4,870 | 92.87 | 374 | 7.13 | 5,244 |
| Totals | 27 | 72.97 | 10 | 27.03 | 37 | 6,585 | 76.08 | 2070 | 23.92 | 8,655 |

Source: Loan sample.

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

Overall, lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration and meets the standards for satisfactory performance. The bank has a mortgage warehousing operation; however, the activity represents a small portion of the loan portfolio and an analysis would not be meaningful.

Owner occupied residential real estate is not considered a primary product. The bank's performance is below the income characteristics of the assessment area. However, the sample size represents only 2% of the total dollar amount of the lending portfolio as of September 30, 2009. Additionally, bank officers have granted a significant number and

dollar amount of qualified community development loans providing affordable housing for low- or moderate-income individuals. Loan originations were compared to 2000 U.S. Census data about the AA. The bank’s performance is shown in the following table:

| Table 2 - Borrower Distribution of Residential Real Estate Loans in Independence Bank Assessment Area | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 |
| Real Estate | 22.68 | 0 | 17.33 | 0 | 18.67 | 16.67 | 41.32 | 83.33 |

Source: Loan sample; U.S. Census data

The distribution of business loans reflects a reasonable penetration of loans to businesses of different incomes. Our sample included several loans to start-up businesses which further illustrates the bank’s willingness to lend to businesses of all income levels. The percentage of sampled loan originations was compared to Dunn and Bradstreet data for businesses in the AA reporting business revenues. The bank’s performance is shown in the following table:

| Table 2A - Borrower Distribution of Loans to Businesses in Independence Assessment Area | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 68.41% | 5.11% | 26.48% | 100% |
| % of Bank Loans in AA by # | 33.33% | 66.67% | 0% | 100% |
| % of Bank Loans in AA by \$ | 8.73% | 91.27% | 0% | 100% |

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the bank’s AA and meets the standards for satisfactory performance.

Geographic distribution of residential real estate loans is satisfactory. For a description of the bank's performance, please refer to *Table 2, Borrower Distribution of Residential Real Estate*. The bank's lending is compared to U.S. Census data for owner-occupied loans as shown in the following table:

| Table 3 - Geographic Distribution of Residential Real Estate Loans in Independence Assessment Area | | | | | | | | |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan type | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Residential RE | 3.23% | 0% | 22.84% | 16.67% | 30.35% | 50.00% | 43.58% | 33.33% |

Source: Loan sample; U.S. Census data

The geographic distribution of small business loans is satisfactory. Loans made in low-income census tracts exceed the characteristic for the assessment area. Although business loans made in moderate-income census tracts fall below the characteristics of the AA, the number reflect the willingness to lend in moderate-income areas. The sample of the bank’s loan originations was compared to Dunn and Bradstreet information about the AA. The bank’s performance is shown in the following table:

| Table 3A - Geographic Distribution of Loans to Businesses in Independence Assessment Area | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans | 5.36% | 14.29% | 25.08% | 4.75% | 26.78% | 14.29% | 42.16% | 66.67% |

Source: loan sample; Dunn and Bradstreet

Responses to Complaints

The bank has not received any CRA related complaints during this evaluation period.

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.