



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**January 17, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Redstone Bank, National Association  
Charter Number 23686**

**109 North Post Oak Lane, Suite 100  
Houston, TX 77024**

**Comptroller of the Currency  
Houston  
1301 McKinney Street, Suite 3410  
Houston, TX 77010-9010**

**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.**

Redstone Bank, National Association (Redstone) is responsive to the credit needs of its community based on the following:

- The geographic distribution of commercial loans to small businesses reflects a reasonable dispersion throughout the assessment area (AA).
- The distribution of loans to businesses of different income levels is adequate.
- A majority of small business loans were originated within the AA.

## **DESCRIPTION OF INSTITUTION**

Redstone is a \$138 million full service bank located in Harris County that opened for business in February 1999. The bank has two locations with a third proposed location opening in February 2006. The main location is 109 North Post Oak Lane, Suite 100, in Houston, Texas. One branch is located at 5018 San Felipe, Houston, Texas and the proposed branch will be located at 8611 Memorial Drive, Houston, Texas. In addition to these three locations, the bank operates a courier service from the Post Oak Lane location and five Automated Teller Machines. Redstone offers a full range of credit products within its AA including consumer loan products, commercial, commercial real estate, and residential loan products. The primary loan products are commercial and commercial real estate 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 Community Reinvestment Act (CRA) examination dated September 18, 2000.

*Please refer to Redstone's CRA Public File for more information about the institution.*

## **DESCRIPTION OF REDSTONE'S ASSESSMENT AREA**

In June 2004, Redstone reduced its original AA of the total 649 census tracts in Harris County to 103 census tracts near the bank on the west side of Houston and Harris County to create an AA more representative of the bank's market and strategic plan. The previous AA was very large and divided by significant geographic barriers. Of the 103 census tracts in the current AA, five are low-income, 29 are moderate-income, 20 are middle-income, and 49 are upper-income according to year 2000 census information. The main location is approximately in the center of the revised AA. The current AA meets regulatory requirements and does not arbitrarily exclude low- and moderate-income areas. It includes the Houston downtown businesses district, an older neighborhood known as the Heights, and an upscale shopping area known as the Galleria in Houston, Texas. It also includes the Texas Medical Center. The current AA has a population of approximately 500 thousand persons and 75 thousand businesses. Harris County and Houston have a significant influence on the bank's AA. Harris County is the third largest county in the

United States with a population of over 3.6 million residents, and it covers 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 has the largest medical center in the world, the Texas Medical Center. The Center's economic impact is more than \$10 billion annually, and it has approximately 52 thousand employees. Approximately 4.8 million patients are treated at the Texas Medical Center annually. Also, eighteen Fortune 500 companies and more than 5 thousand energy related firms are located in the city considered by many to be the "Energy Capital" of the world.

We completed community contacts with organizations in Harris County during other CRA examinations that were applicable to this examination. A Chamber of Commerce contact stated that commercial and commercial real estate loans were the greatest need in the area. Another community leader stated one to four family residential real estate loans were a primary need. A Chamber of Commerce leader in Northwest Houston stated that loans to industry was the greatest need in that area. A charitable organization leader in North Houston stated that affordable rental housing was a need in that part of Houston. Two of the four identified needs are a part of the bank's primary lending strategy of seeking commercial and commercial real estate lending opportunities.

Local banking competition is intense and includes affiliates of large national banking companies, regional banks, many small community banks, credit unions, and non-bank financial service providers. The largest five competitors in this market include: JPMorgan Chase Bank, Bank of America, N. A., Wells Fargo Bank, N. A., Washington Mutual, F. A., and Bank One, N. A.

*Please refer to Redstone's CRA Public File for more information about the institution.*

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Our review focused on the two most significant loan products of commercial and commercial real estate. Based on Call Report information, commercial loans were 36 percent of the total loan portfolio of \$65 million. Commercial real estate loans were the second largest product at 21 percent of the total. Other loan products included construction and land development at 19 percent, one to four family residential loans at 12 percent, and consumer loans at 10 percent of total loans. The remaining 2 percent of the portfolio was farmland and other. All loan information was compared to current Dunn and Bradstreet information for the AA. Information on all loan originations was available for 2003, 2004, and 2005 for commercial and commercial real estate loan originations. We found this information was reliable, and our review was based on bank provided information. Loan information for both products is combined in the following analysis and tables.

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit (LTD) ratio is satisfactory. Although below an average of 31 peer group small banks in Harris County, it is reasonable considering the bank's asset size and the AA's intense competition. The quarterly average ratio since the prior CRA examination is 62 percent compared to the peer group average of 76 percent for the same period. However, management's LTD ratio goal is 75 to 80 percent, and the ratio at December 31, 2004 was

81 percent. In 2005, large temporary deposits considered not available for lending from individuals and companies related by common ownership temporarily decreased the LTD ratio.

### Lending in Assessment Area

Lending in the assessment area is satisfactory. A majority of Redstone’s loans were originated within the AA as shown in the following table:

<b>Table 1 – Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
2005 Originations	77	62	47	38	124	28,445	53	24,995	47	53,440
2004 Originations	88	76	28	24	116	43,239	72	16,970	28	60,199
2003 Originations	55	73	20	27	75	17,259	77	5,236	23	22,495
Totals	220	70	95	30	315	88,943	65	47,191	35	136,134

Source: Data collected by bank.

### Lending to Businesses of Different Sizes

The income distribution of small businesses for the years 2003 through 2005 is adequate for loans originated to businesses with revenues of \$1 million or less. The bank’s performance is shown in the following tables:

<b>Table 2A - Borrower Distribution of Loans to Businesses in AA (2004 &amp; 2005)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	60%	8%	32%	100%
% of Bank Loans in AA by #	45%	54%	1%	100%
% of Bank Loans in AA by \$	32%	61%	7%	100%

Source: Data collected by bank; Dunn and Bradstreet data.

<b>Table 2A - Borrower Distribution of Loans to Businesses in AA (2003)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	59%	8%	33%	100%
% of Bank Loans in AA by #	36%	64%	0%	100%
% of Bank Loans in AA by \$	34%	66%	0%	100%

Source: Data collected by bank; Dunn and Bradstreet data.

Although the loans do not meet the size test for a community development loan as defined in the CRA regulations, two loans originated in the AA meet the purpose test. One loan of \$15 thousand was originated to a school for severely retarded low- and moderate-income adults who would otherwise be institutionalized. Another loan was originated for \$360 thousand to provide access to computer technology for low-income underserved individuals and

communities.

In addition to the loans discussed above, officers originated two loans outside the AA that benefit the greater Houston and Harris County area thereby benefiting the bank's AA. These loans met the purpose test but not the size test for a community development loan. These loans included one loan originated to a homebuilder in the amount of \$440 thousand for affordable homes in the price range of \$75 to \$99 thousand. These homes qualify for governmental assistance including Housing of Houston grants for down payment assistance. The second was a loan originated to a charitable organization in the amount of \$278 thousand for energy management at three shelters. This organization provides housing for low-income individuals and families as well as substance abuse programs and job training.

### Geographic Distribution of Loans

Overall, Redstone's geographic distribution of loans to businesses meets the standards for satisfactory performance. Lending opportunities are limited in low-income census tracts in the bank's AA, and officers have not been able to originate any significant number of loans in these tracts. Lending opportunities are greater in moderate-income census tracts, and officers have granted an adequate level of loans that is somewhat lower than the characteristics of the assessment area in 2004 and 2005. However, the bank's level of lending in 2003 exceeds the characteristics of the AA in moderate-income census tracts. Overall performance is shown in the following tables:

Table 3A - Geographic Distribution of Loans to Businesses in AA (2004 & 2005)								
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
	4	1	24	19	13	8	59	72

Source: Data collected by bank; Dunn and Bradstreet data.

Table 3A - Geographic Distribution of Loans to Businesses in AA (2003)								
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
	4	0	23	25	13	22	60	53

Source: Data collected by bank; Dunn and Bradstreet data.

### Responses to Complaints

Redstone has not received any complaints regarding its CRA performance.

### Fair Lending or Other Illegal Credit Practices Review

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