



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**February 14, 2005**

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

**Texas Community Bank, National Association  
Charter Number 24357**

**16610 I-45  
The Woodlands, TX 77384**

**Comptroller of the Currency  
Houston  
1301 McKinney Street Suite 3410  
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.**

Texas Community Bank, National Association (TCB) meets the credit needs of its assessment area (AA). The following factors support this conclusion:

- The loan-to-deposit ratio exceeds the standard for satisfactory performance.
- Lending to businesses of different sizes is reasonable.
- A substantial percentage of lending activity is in the assessment area

## **DESCRIPTION OF INSTITUTION**

TCB is a \$91 million full service community bank located in Montgomery County Texas. The bank has one office at 16610 Interstate 45 in The Woodlands, Texas and does not have branch locations. However, a branch opening is scheduled during March 2005 at 1131 Uptown Park Blvd. in Houston, Texas. The bank offers a full range of credit products within its assessment area (Harris and Montgomery Counties) that include commercial, real estate, and consumer loan products. Primary loan products are commercial real estate and commercial loans. The bank offers a variety of consumer products. However, due to the single office location and business marketing strategy, consumer lending is limited and related primarily to business owners and their family members. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. This is the bank's first Community Reinvestment Act (CRA) examination since it opened on September 10, 2002.

*Please refer to the bank's CRA public file for more information about the institution.*

## **DESCRIPTION OF HARRIS COUNTY**

The bank has designated all of Harris County, Texas as part of its assessment area. 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 3.4 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, 52 thousand people work in its facilities, and the center has 21 million square feet of space. 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 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 667 thousand owner occupied single-family housing units and 599 thousand rental housing units. The median value of a single-family residence is \$101 thousand, and the median family income is \$59,100. The weighted average monthly gross rent is \$606. Harris County has numerous income census tracts that include 62 low-income census tracts, 222 moderate-income census tracts, 179 middle-income census tracts, and 179 upper-income census tracts. There are seven census tracts without a 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 2003 was 6.7%, a slight increase from the 2002 annual rate of 6.1%.

*Please refer to the bank's CRA public file for more information about the AA.*

## **DESCRIPTION OF MONTGOMERY COUNTY**

The bank has designated all of Montgomery County, Texas as part of its assessment area. The county, known as the "Birthplace of the Lone Star Flag," covers over 1,000 square miles and is the 15<sup>th</sup> largest county in Texas. The county consists of 39 census tracts and encompasses the communities of Conroe, Montgomery, Magnolia, Willis, Cut and Shoot, Splendora, New Caney, Porter, The Woodlands, and Shenandoah. The assessment area meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to the 2000 census, Montgomery County had a population of approximately 293,000. 2002 estimates provided by the Greater Conroe Economic Development Council indicate the current population is over 300,000. The population is projected to grow to 370,000 by 2007.

Conroe is centrally located in Montgomery County, 45 miles north of downtown Houston. The Greater Conroe Economic Development Council estimates that Conroe, the county seat of Montgomery County, currently has a population of more than 38,000. Conroe's economy has greatly diversified in the last twenty years with the growth of industries such as manufacturing, retail, health care, biotechnology, construction, and tourism. Employment opportunities are largely centered in the trade and service sectors.

Financial services competition in Montgomery County and particularly in the Woodlands is intense. There are numerous branches of large multi-state national and regional financial institutions as well as entrenched local community banks competing for the small business market. In addition, Montgomery County has a large and competitive credit union located in the Conroe area as well as mortgage companies, finance companies, and other financial institutions.

We reviewed community contacts completed during previous examinations of other area banks and made contact with a local community leader. From our discussion, we learned local

community banks as well as branches of national and regional bank corporations have taken an active roll in the community and are meeting the credit needs of the community. Local banks have provided residential lot development programs as well as interim construction lending and permanent financing for single-family residences. Banks have also provided lending for commercial and business projects necessary to support the increasing population growth in Montgomery County. We also learned small business owners are able to obtain financing to support increased business activity resulting from the dynamic population growth.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on commercial real estate and commercial loans. Commercial real estate loans total \$64 million and commercial loans total \$13 million representing 81% and 16% of the total loan portfolio respectively. We compared the bank’s commercial lending activity to Dunn and Bradstreet data.

### Loan-to-Deposit Ratio

The average quarterly loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank opened on September 10, 2002 and during the first ten quarters ending September 30, 2004 has an average loan to deposit ratio of 118%. The average of similarly situated financial institutions in the assessment area is 76% for the same time period. We also reviewed lending performance for the most recent five quarters and found the bank continues to excel with an average loan to deposit ratio of 102% compared to the peer group ratio of 77%.

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

Lending to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance and is reasonable. The following tables display the bank’s lending to businesses of different sizes for commercial real estate and commercial loans by year:

<b>Borrower Distribution of Loans to Businesses in Harris and Montgomery Counties Commercial Real Estate and Commercial Loans in 2002</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67	6	27	100%
% of Bank Loans in AA by #	80	20	0	100%
% of Bank Loans in AA by \$	72	28	0	100%

Source: Loan sample and Dunn and Bradstreet data.

<b>Borrower Distribution of Loans to Businesses in Harris and Montgomery Counties Commercial Real Estate and Commercial Loans in 2003 and 2004</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63	5	32	100%
% of Bank Loans in AA by #	82	18	0	100%
% of Bank Loans in AA by \$	60	40	0	100%

Source: Loan sample and Dunn and Bradstreet data.

The number of loans to businesses with gross annual revenues of \$1.0 million or less increased to 82% during 2003 and 2004 and is indicative of the bank's willingness to make credit available to small businesses entities and compares favorably to Dunn and Bradstreet data showing 63% of reporting businesses had gross annual revenues of \$1 million or less. We also noted the bank promotes new business opportunities. Six of the fifty-eight loans reviewed (10)% were for newly formed start-up businesses.

### **Lending in Assessment Area**

The bank originates a substantial percentage of loans in its assessment area. The analysis includes eight commercial real estate loans and 10 commercial loans for the year 2002 and 24 commercial real estate and 23 commercial loans for the years 2003 and 2004. The following table reflects the bank lending performance in the AA:

<b>Table 1 - Lending in Harris and Montgomery Counties</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2002 Commercial Real Estate and Commercial	15	83	3	17	18	4,908	60	3,217	40	8,125
2003/2004 Commercial Real Estate and Commercial	40	85	7	15	47	12,461	95	700	5	13,161
Totals	55	85	10	15	65	17,369	82	3,917	18	21,286

Source: Loan samples.

## Geographic Distribution of Loans

The geographic distribution of loans meets the standard for satisfactory performance. The following table displays the geographic distribution of loans based on our sample of 2002 and 2003/2004 business borrowers:

<b>Table 3A - Geographic Distribution of Loans to Businesses in Harris and Montgomery Counties</b>								
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
2002 Commercial Real Estate and Commercial	6	0	25	7	31	27	38	66
2003/2004 Commercial Real Estate and Commercial	6	3	27	13	26	26	41	58

*Source: Loan sample and Dunn and Bradstreet data.*

Loans generated during the final months of 2002 were composed primarily of credits to prior loan customers and loans purchased from other lenders resulting in limited penetration of low- and moderate-income census tracts. However, during 2003 and 2004 the bank's lending staff began soliciting business within the assessment area resulting in improved penetrations of the low- and moderate-income tracts. Management anticipates increased lending activity in all census tracts as the bank's business solicitation and calling program matures.

## Responses to Complaints

TCB did not receive any consumer complaints regarding its CRA performance during the assessment period.

## Fair Lending or Other Illegal Credit Practices Review

The bank was not selected for a fair lending examination and therefore no assessment has been rendered. However, management states the bank fully complies with all fair lending and equal credit opportunity laws and regulations.