



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 5, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Bellaire
Charter Number: 15144**

**5501 Bissonnet
Houston, Texas 77081**

**Office of the Comptroller of the Currency
Southwestern District
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 **First National Bank of Bellaire** prepared by **The Office of the Comptroller of the Currency** the institution's supervisory agency, as of January 5, 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*.

First National Bank of Bellaire has a *satisfactory* record of meeting credit needs within the community, as evidenced by the following:

- A reasonable loan-to-deposit ratio which meets the standards for satisfactory performance;
- A reasonable proportion of loan originations within the bank's assessment area;
- A reasonable distribution of loan originations to borrowers of different income levels and businesses of different sizes; and,
- A reasonable geographic distribution of lending within its assessment area.

The following table indicates the performance level of **First National Bank of Bellaire** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NATIONAL BANK OF BELLAIRE</u> 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 CRA examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Bellaire is a \$46 million institution which services its customers through one main location and one on premise ATM. To help meet the credit needs of its community First National Bank of Bellaire offers general loan products for consumers and small businesses. Lending activity is centered in the following loans: real estate (67%), commercial and industrial (10%), one - four family residential property (13%), loans to individuals (9%) and other loans (1%). The bank offers a variety of deposit accounts and other banking services as well. The previous CRA examination report dated March 11, 1996 found the bank's CRA performance to be "Satisfactory."

In 1994, First National Bank of Bellaire entered into an Order to Cease and Desist (Order) with its primary regulator, the Office of the Comptroller of the Currency (OCC), to divest itself of certain illegal loans. These loans continue to have a significant impact on First National Bank of Bellaire's efforts to meet the credit needs of its local community.

The Order from the OCC is intended to promote safe and sound lending practices by requiring minimum standards of loan portfolio diversification. Accordingly, until the bank completes the divestiture to which it has agreed, the bank's ability to lend upon the security of certain types of commercial properties is constrained. However, nothing in the agreement restricts the bank in its selection of products and services to offer, within the limits of prudence and law.

DESCRIPTION OF ASSESSMENT AREA

In May 1997, First National Bank of Bellaire expanded its assessment area. This assessment area is defined as the area bounded on the: North by Westheimer and Interstate 10, East by Loop 610 and East City limits of Bellaire, South by Main Street and Harris, Fort Bend County lines and West by Highway 6. The bank's designated assessment area includes eighty-three census tracts which have the following tract characteristics: five low income (6%), fifteen moderate income (18%), twenty-two middle income tracts (27%), and forty-one upper income tracts (49%). The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate- income geographies.

First National Bank of Bellaire is located in the Houston Metropolitan Statistical Area (MSA). The Houston MSA (#3360) has a population in excess of three million people. The assessment area has a population of about 472,046 people, with 11% living below the established poverty level. Also, the assessment area has approximately 238 thousand housing units with about 41% being 1 - 4 family units and the remaining 59% being multi-family units. Owner occupied units account for 31% of the total. The median housing value is \$104,726 with a median monthly gross rent of \$431. The HUD Metropolitan Statistical Area (MSA) Median Family Income is \$36,886.

First National Bank of Bellaire is subject to intense competition from a number of non-bank financial entities, branches of regional and multinational corporations and branches of other financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

First National Bank of Bellaire actively meets the credit needs of its assessment area. First National Bank's loan-to-deposit ratio is reasonable. As of December 31, 1997, the bank had a loan-to-deposit ratio of 52%. The bank's average loan-to-deposit ratio over the past eight quarters is 51%. This average loan-to-deposit ratio compares favorably to the average of 59% for similarly situated banks in the assessment area.

LENDING IN THE ASSESSMENT AREA

An internal analysis prepared by management indicated that a substantial majority of the bank's loans were within its assessment area. An analysis performed for the bank by an external firm indicated that the bank has a majority of portfolio loans within its assessment area. This external analysis revealed that 50% of the number (182 of 362) and 50% of the dollar volume (\$10,095,315 of \$20,124,194) were made within the assessment area. An analysis of a small sample of loans performed during our examination reflects that a reasonable portion of the lending activities is to customers within the bank's assessment area. Our analysis noted that 60% of the number and 30% of the dollar volume of loans made were to customers within the bank's assessment area.

Community contacts made within community indicate the need for small dollar consumer loans, small mortgage loans and the need for banking education for citizens in the area. Specifically, this need lies in the Gulfton community within the assessment area. First National Bank of Bellaire is involved in and is striving to meet these identified needs.

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

First National Bank of Bellaire's lending to borrowers of different income levels and businesses of different sizes is reasonable. Loan applications are solicited from a cross-section of income levels. Although the majority of the lending is to upper income families, this is not a concern as there is an appropriate level to low income and moderate income families. All of the commercial loans sampled were made to small businesses with revenues of less than \$1 million. Overall, the bank's level of lending to individuals of different income levels and businesses of different sizes is in line with the characteristics of the assessment area. Table 1 is based on a sample of loans approved through December 31, 1997.

Table 1

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	22%		16%		18%		44%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
Mortgage	0	0%	0	0%	1	25%	3	75%	4	100%
Consumer	3	33%	1	11%	2	23%	3	33%	9	100%
Home Improvement	1	5%	4	19%	3	14%	13	62%	21	100%
Total	4	12%	5	15%	6	18%	19	56%	34	100%
Revenue Ranges	< \$100M		\$100M-- \$500M		\$500-- \$1MM		> \$1MM			
Commercial	1	17%	5	83%	0	%	0	%	6	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

First National Bank of Bellaire had a CRA analysis performed by an external firm in 1996 and 1997. This external analysis revealed a reasonable geographic distribution of loan originations. An analysis performed during this examination, substantiated a reasonable geographic distribution of lending which is in line with the demographic profile of the bank's assessment area. The sample review indicated that 8% was in low income tracts and 13% in moderate income tracts. The remaining 79% was in middle to upper income census tracts. The demographic profile detailed 6% in low income tracts and 18% in moderate income tracts and the remaining 76% in middle to upper income census tracts. Table 2 below illustrates the geographic distribution of loans:

Table 2

GEOGRAPHIC DISTRIBUTION OF LOANS										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Area Demographic Characteristics	6%		18%		27%		49%		100%	
Count	5		15		22		41			
	#	%	#	%	#	%	#	%	#	%
Loan Types										
Mortgage	0	0%	0	0%	0	0%	1	100%	1	100%
Consumer	1	20%	1	20%	3	60%	0	0%	5	100%
Home Improvement	0	0%	1	7%	3	21%	10	72%	14	100%
Small Biz	1	25%	1	25%	1	25%	1	25%	4	100%
Total Loans	2	8%	3	13%	7	29%	12	50%	24	100%

RESPONSE TO COMPLAINTS

During this evaluation period, First National Bank of Bellaire did not receive any consumer complaints regarding its CRA performance. However, the bank has satisfactory procedures in place to handle consumer complaints.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

A Fair Lending review was performed in conjunction with this CRA examination. First National Bank of Bellaire is in compliance with the substantive provisions of anti-discrimination laws and regulations. We found no evidence of practices intended to discourage potential borrowers from applying for credit at the bank.

CRA ROE Comment

A review of the bank's efforts to comply with the Community Reinvestment Act (CRA) was performed. The scope of the review was in accordance with the Small Bank CRA Procedures that are outlined in the Comptroller's Handbook.

Overall, the bank's CRA performance is satisfactory. The bank's lending activities demonstrate a commitment to comply with the CRA. The bank grants a satisfactory level of loans, relative to its size and financial condition, and scope of operations. The assessment area is reasonable and does not arbitrarily exclude any low-to-moderate income areas.

The loan-to-deposit ratio has averaged 51% for the past eight quarters and is considered reasonable. As of December 31, 1997, the loan-to-deposit ratio was 52%. This ratio compares favorably to similarly situated banks in the assessment area.

An analysis of a small sample of loans approved in 1996 and 1997 indicates a reasonable proportion of lending is within the bank's assessment area. The analysis reflected that 60% of the number of loans and 30% of the dollar volume were to customers within the bank's assessment area. Additionally, loans have been made to a variety of borrowers throughout the assessment area.

The bank's record of lending to borrowers of different income levels and business of different sizes is reasonable. Loan applications are solicited from a cross-section of income levels, with an appropriate number from low income and moderate income families. Additionally, we noted that the majority of the small business loans reviewed were extended to businesses with annual revenues of less than \$1 million.

An analysis of the bank's outstanding loans reflects that the bank's geographic distribution of lending is reasonable when considering the demographic profile of the assessment area. Loans are made to customers in census tracts of all income characteristics: low, moderate, middle, and upper incomes.

The bank has not received any consumer complaints regarding its CRA performance since the prior CRA examination. However, procedures are in place to handle potential consumer complaints.