



SMALL BANK

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

PUBLIC DISCLOSURE

October 1, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Unity National Bank of Houston
Charter Number 21008**

**2602 Blodgett Street
Houston, TX 77004**

**Comptroller of the Currency
Houston Field Office
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.

Unity National Bank exhibits Satisfactory performance meeting community credit needs. The main factors supporting this conclusion include:

- The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment areas (AA). This is noteworthy since Unity National Bank of Houston strives to serve an area with significant economic and financial needs.
- A majority of loans are originated outside of the institution's AA. However, most loans outside of the AA help meet community development needs or finance minority businesses and are located in the Houston metropolitan area. These loans are important to the community and demonstrate that Unity NB is lending in its immediate AA and in the expanded metropolitan area.
- Lending to small businesses is good. Most of the bank's commercial loans were extended to businesses with revenues less than \$1 million.
- Lending to borrowers of different incomes is weak, but limited borrower income information is available for residential real estate and consumer loans. Therefore, this analysis did not have significant impact on the overall rating.
- Community development investments and services support satisfactory performance.

DESCRIPTION OF INSTITUTION

Unity National Bank of Houston (Unity NB) is headquartered in Houston, Texas. It is a minority-owned institution (African American) located in Harris County.

As of December 31, 2005, Unity NB had assets of \$56 million. Unity NB received a Satisfactory rating at the last CRA examination dated October 9, 2001. No legal constraints impede efforts to help meet the credit needs of the assessment area. However, financial constraints adversely affect Unity NB's ability to extend credit.

Unity NB serves the community from two locations. Unity NB's main office location is in the heart of the community known as the Third Ward in Houston. The other branch is located in Missouri City, Texas, a suburb of Houston. One branch was closed since the prior CRA evaluation, and an administrative office with limited services was opened in the Galleria area of Houston.

Unity NB's primary market in Houston is distressed and under-banked. Unity NB is a certified Small Business Administration (SBA) lender and is certified as a Minority/Disadvantaged Business Enterprise. Unity NB has a strong presence in the community through funding community development projects. Unity NB offers a variety of commercial and retail banking services. The Missouri City and the Blodgett branches both offer drive-up services, and proprietary automated teller machines (ATM).

Unity NB's primary product lines are commercial loans, residential real estate loans, and consumer loans. As of December 31, 2005, the loan portfolio was comprised of 23 percent residential real estate, 36 percent commercial, and 10 percent consumer loans.

DESCRIPTION OF HARRIS COUNTY/FORT BEND COUNTY

The bank has defined two portions of the Houston-Sugarland-Baytown Metropolitan Statistical Area (Houston MSA) as its assessment areas (AA). The Houston MSA AA is very large with a population of 4.7 million people. One of the designated areas is a distressed region in part of Harris County and the other is in Missouri City, a portion of Fort Bend County. Since both counties are part of the Houston MSA, they were combined to analyze lending performance. The AA meet regulatory requirements.

Unity NB's target market is an area comprised of 22 contiguous census tracts that meet various distressed criteria. Unity NB's primary market is an area in Houston, known as the Third Ward Community, defined as an area bordered by Interstate Highway 45 to the North, Scott Street to the East, South MacGregor to the South, and Almeda Road to the West. A large portion of the population is African-American. Unity NB is strategically located near downtown Houston and the Texas Medical Center. The University of Houston and Texas Southern University are located within a one-mile radius of Unity NB. Unemployment in the area has traditionally been high. Many of the homeowners are senior citizens that have lived in the area for many years.

A community representative indicates that economic conditions have improved in the Third Ward, but housing costs are rising. Credit needs include mortgage loans and assistance programs for lower-income people to afford homes.

Missouri City is southwest of Houston and offers a more suburban atmosphere. Missouri City has a good economy and strong employment base. The city has a higher median income than the bank's AA at \$74 thousand. Missouri City has experienced steady growth throughout the 1990s and the past several years. Continued growth is expected and the city is racially diverse.

The table below provides demographic information about the bank's combined AA:

| Demographic and Economic Characteristics of the Harris County/Ft. Bend County Assessment Area | |
|--|----------|
| Population | |
| Total Population | 155,052 |
| Number of Families | 36,181 |
| Number of Households | 55,667 |
| Geographies | |
| Number of Census Tracts | 37 |
| % Low-Income Census Tracts | 22% |
| % Moderate-Income Census Tracts | 33% |
| % Middle-Income Census Tracts | 35% |
| % Upper-Income Census Tracts | 5% |
| % NA Census Tracts | 5% |
| Median Family Income (MFI) | |
| 2000 MFI for AA | \$43,761 |
| 2005 HUD-Adjusted MFI | \$59,400 |
| Economic Indicators | |
| Unemployment Rate | 5 |
| 2000 Median Housing Value | \$73,208 |
| % Households Below Poverty Level | 20 |

Source: 2000 Census data and HUD updated income data.

The AA economy is weaker than the entire Houston MSA with a higher unemployment rate and much larger portion of the population living below poverty. For the entire MSA, the unemployment rate was three percent as of the 2000 census and twelve percent of households have incomes below the poverty level. Historically, a large part of the bank's market has been under-served by other financial institutions. Competition is provided by a few branches of larger regional institutions located throughout the community. Competition is also provided by several non-bank financial institutions, such as check-cashing facilities and payday loan centers.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending performance is primarily based on an assessment of residential real estate loans, commercial loans and consumer loans made during 2004 and 2005. Although the sample sizes are small, they reflect all of the loans funded by Unity NB during 2004 and 2005. As noted, financial constraints impeded the bank's ability to lend during this time frame.

The loan-to-deposit ratio is excellent. Geographic distribution of loans within the AA is excellent. The geographic distribution is noteworthy given the high level of economic and financial needs in the AA. A majority of loans are outside of the institution's AA. However, approximately half of the number of consumer loans and a majority of the dollar amount of residential loans were made within the bank's AA. Commercial lending is weaker, and is partly due to the difficulty of lending within the distressed parts of the AA. Most of the commercial loans outside the AA are located in the Houston metropolitan area and help meet community development needs, finance minority-owned businesses, or address other significant lending needs for the larger Houston market.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. Since the prior CRA evaluation, Unity NB's loan-to-deposit ratio averaged 88 percent. This ratio indicates a strong level of lending when compared with six similar banks in the AA. The similar banks had an average ratio of 71 percent for the same time period and the ratios ranged from 34 percent to 86 percent.

Lending in Assessment Area

A majority of loans were originated outside of the institution's assessment area. However, a majority of the dollar amount of residential real estate loans and half of the number of consumer loans were made within the AA. These products have satisfactory performance for lending in the AA. Commercial-related lending within the AA is low. The low concentration for commercial loans is offset somewhat by the location and impact of the loans outside of the AA. Most are in the Houston area and help meet community development needs or finance minority-owned businesses. These loans benefit the greater Houston metropolitan area, including the AA.

| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
|------------------|-----------------|-----|---------|----|-------|------------------|-----|---------|----|-------|
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Purchase | 3 | 30 | 7 | 70 | 10 | 326 | 34 | 620 | 66 | 946 |
| Home Improvement | 1 | 100 | 0 | 0 | 1 | 95 | 100 | 0 | 0 | 95 |
| Home Refinance | 5 | 63 | 3 | 37 | 8 | 420 | 68 | 202 | 32 | 622 |
| Commercial | 9 | 38 | 15 | 63 | 24 | 988 | 119 | 4,161 | 81 | 5,149 |
| Consumer | 14 | 50 | 14 | 50 | 28 | 384 | 35 | 716 | 65 | 1,100 |
| Totals | 32 | 45 | 39 | 55 | 71 | 2,213 | 28 | 5,699 | 72 | 7,912 |

Source: Data reported under HMDA, sample of loans.

Three community development loans totaling \$373 thousand were extended in the AA and

demonstrate Unity NB’s efforts to meet significant credit needs. All three loans were made to Community Development Corporations to build affordable housing for low- or moderate-income families. Each loan helped fund multiple housing units and demonstrates responsiveness to community credit needs.

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

Overall lending to borrowers of different income levels and businesses of different sizes is reasonable. Performance for lending to individuals does not carry much weight in the overall assessment since income information was not available for some mortgage and consumer loans extended during the evaluation period. The missing data could affect conclusions given the low level of loans originated.

The borrower distribution for residential mortgages is poor, with only one home-related loan extended to a moderate-income family and none to low-income families. Unity NB extended a small number of mortgages in the AA during this evaluation period and income information was not available for 2 loans, or 22 percent of AA mortgage loans. Given the small number of residential real estate loans and lack of income information for a portion of these loans, the borrower distribution analysis is not very meaningful and carries very little weight when deriving overall conclusions.

| Table 2 - Borrower Distribution of Residential Real Estate Loans in Harris/Fort Bend Counties | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 |
| Home Purchase | 30 | 0 | 19 | 33 | 19 | 0 | 32 | 67 |
| Home Improvement | 30 | 0 | 19 | 0 | 19 | 0 | 32 | 0 |
| Home Refinance | 30 | 0 | 19 | 0 | 19 | 20 | 32 | 60 |

Source: Data reported under HMDA; U.S. Census data.

The penetration of commercial-related loans to small businesses is reasonable. The percentage of loans made to small businesses exceeds the percentage of small businesses in the AA when evaluated by number. More weight is placed on the number of loans since only one loan was made to a business with revenues exceeding \$1 million.

| Table 2A - Borrower Distribution of Loans to Businesses in Harris/Fort Bend Counties | | | | |
|---|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 67 | 5 | 28 | 100% |
| % of Bank Loans in AA by # | 78 | 11 | 11 | 100% |
| % of Bank Loans in AA by \$ | 36 | 61 | 3 | 100% |

Source: Loan sample; Dunn and Bradstreet data.

Borrower distribution of consumer loans is adequate. The penetration of loans to low-income borrowers is below the demographic comparator, but is adequate. The penetration of loans to moderate-income borrowers is poor. The number of loans originated for the loan evaluation period was small and borrower income was not available for a significant portion of the loans, so limited weight is placed on this analysis.

| Table 2B - Borrower Distribution of Consumer Loans in Harris/Fort Bend Counties | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 32 | 21 | 18 | 7 | 18 | 14 | 32 | 36 |

Source: Loan sample; U.S. Census data.

Note: Borrower income was not available for 21% of the loans sampled.

Geographic Distribution of Loans

The geographic distribution of loans is excellent for all three loan types reviewed. This demonstrates a strong commitment to lend in needy areas since much of the AA has considerable economic needs.

The geographic distribution of home mortgages is excellent. Although Unity NB did not make a large number of residential real estate loans in the AA, almost all were extended in low- or moderate-income geographies.

| Table 3 - Geographic Distribution of Residential Real Estate Loans in Harris/Fort Bend Counties | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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 |
| Home Purchase | 10 | 0 | 26 | 67 | 49 | 33 | 15 | 0 |
| Home Improvement | 10 | 100 | 26 | 0 | 49 | 0 | 15 | 0 |
| Home Refinance | 10 | 20 | 26 | 80 | 49 | 0 | 15 | 0 |

Source: Data reported under HMDA; U.S. Census data.

The geographic distribution of small business loans is excellent. All loans were made in either low- or moderate-income census tracts. Performance is significant since much of Unity NB's AA is comprised of economically distressed areas.

| Table 3A - Geographic Distribution of Loans to Businesses in Harris/Fort Bend Counties | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 15 | 56 | 34 | 44 | 34 | 0 | 16 | 0 |

Source: Loan sample; D & B data.

The geographic distribution of consumer loans is excellent. The penetration in low-income census tracts nearly meets the percentage of low-income households and the performance for moderate-income geographies greatly exceeds the demographic comparator.

| Table 3B - Geographic Distribution of Consumer Loans in Harris/Fort Bend Counties | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 16 | 14 | 31 | 50 | 44 | 22 | 9 | 14 |

Source: Loan sample; U.S. Census data.

Community Development Investments and Services

Unity NB was involved in community development (CD) investments and services that support its overall satisfactory CRA performance.

Several CD investments were made totaling \$10 thousand. Investments included grants and donations to a variety of organizations that provide services to low- or moderate-income people.

Monies helped fund financial education, job training, community development corporations, homeless shelters, and support victims of Hurricane Katrina.

Five qualified CD services were conducted and all helped provide financial education targeted toward low- or moderate-income populations.

Responses to Complaints

No complaints relating to CRA performance were received during the evaluation period. This has a neutral impact on the overall CRA rating.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.