

PUBLIC DISCLOSURE

April 9, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Bank
RSSD # 789257

20045 Katy Freeway
Katy, Texas 77492

Federal Reserve Bank of Dallas

2200 North Pearl Street
Dallas, Texas 75201

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.

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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 the community.

*This document is an evaluation of the CRA performance of **Community Bank, Katy, Texas**. It has been prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of **April 9, 2001**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Community Bank's performance in originating loans to meet the credit needs of all segments of its community merits a satisfactory rating for the period covered by this evaluation. The bank achieved the rating based largely on the distribution of motor vehicle and commercial loans. The bank extended 90 percent of its commercial loans to businesses with less than \$1 million in gross annual revenues and 66 percent of its automobile loans to borrowers considered either low-or moderate-income. The evaluation also noted that a majority of the bank's loans were extended to borrowers and businesses that reside or operate in the bank's defined assessment area. Additionally, the bank's loan-to-deposit ratio was considered satisfactory. Given the environment in which the bank operates, which is more fully described below, the bank meets the requirements to receive a rating that is satisfactory in each assessment factor. Community Bank received a satisfactory rating at the last CRA examination conducted as of April 7, 1997.

DESCRIPTION OF INSTITUTION

Community Bank (CB) is a full service bank offering commercial, construction, home mortgage, home improvement and consumer loans. The bank offers deposit products such as certificates of deposit, checking, money market and savings accounts. As of December 31, 2000, CB reported total assets of approximately \$115.1 million, total deposits of \$107.6 million, gross loans of \$75.3 million and equity capital of \$6.5 million. Total bank assets have increased approximately 74 percent since the last examination.

CB operates two banking locations in southeast Texas. Both banking offices are located in Harris County in the town of Katy, Texas. The city limits of Katy extend into three contiguous counties in southeast Texas, including Fort Bend, Harris and Waller. The following chart details the bank's locations, structure and office hours:

OFFICE	ADDRESS	COUNTY	LOBBY HOURS
Main	20045 Katy Freeway Katy, Texas 77492	Harris	M-Th 9:00 – 3:30 Fr 9:00 – 6:00 Sat 9:00 – 12:00
Branch	5733 Second Street Katy, Texas 77493	Harris	M-Th 8:30 – 5:00 Fr 8:30 – 6:00 Sat 8:30 – 12:00

The following chart details the bank's loan portfolio as of December 31, 2000. As indicated below, the bank's primary lending focus is real estate loans, representing about 59 percent of the total portfolio. Within the real estate category, construction and land development loans constitute about 21 percent, followed by 19 percent residential and 17 percent commercial real estate loans. Commercial and industrial loans comprise the next largest category of loans at about 24 percent, followed by 17 percent for consumer loans.

LOAN TYPE	DATE (IN THOUSANDS)	PERCENT OF GROSS LOANS
Real Estate		
Residential	\$14,277	19.0%
Commercial	12,556	16.7
Construction/Land Development	15,665	20.8
Other Real Estate	<u>1,824</u>	<u>2.4</u>
Total Real Estate	44,332	58.9
Consumer - All Other	12,478	16.6
Commercial and Industrial	18,253	24.2
Agricultural	153	0.2
Other	77	0.1
Gross Loans	\$75,283	100.0%

As of June 30, 2000, there were 15 banking institutions operating 21 offices in Katy. CB ranks second in market share in Katy, with approximately 16 percent of total deposits. Overall the bank's ability to meet various community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, demographic and economic factors present in the assessment area, or lending opportunities available in the institution's assessment area.

Two members of the community were contacted for input on the CRA performance of Community Bank and other institutions in its area. The contacts indicated that CB is highly involved in the community and is committed to meeting local credit needs. The comments were generally favorable of all local institutions, including Community Bank. The contacts spoke of local needs in the areas of public transportation, adult living facilities, and affordable housing for the growing population. One contact indicated that there is a need for financial counseling of entrepreneurs seeking small business financing.

Overall, it appears that there are numerous opportunities for banks in this area to participate in community development and other credit-related programs, particularly involving affordable housing and small business lending. It is anticipated that continued population growth will generate additional credit needs for affordable housing, small business, home improvement and consumer loans in the communities in which the bank operates. Discussions with bank management indicate that they are interested and willing to help the community and are poised to meet these challenges.

DESCRIPTION OF ASSESSMENT AREA

The bank has delineated its assessment area (AA) as portions of Fort Bend, Harris and Waller counties, which are located in southeast Texas. These counties form a portion of the Houston PMSA. The bank's main office is located in the community of Katy, Texas. Katy is located on Interstate Highway 10 and U. S. Highway 90 at the intersection of Harris, Waller, and Fort Bend Counties, twenty-five miles west of downtown Houston. As Katy extends into portions of these three counties, the bank has selected portions of each county for its assessment area. The bank has selected a census tract in both Fort Bend and Waller counties that encompass the city limits of Katy. The remainder of Waller County not included in the bank's assessment area is chiefly rural. The portion of Fort Bend County not selected extends a great distance to the south of the bank's locations. The remainder of the census tracts in the assessment area are located in the western portion of Harris County. The assessment area is bounded by, clockwise for the north, Montgomery, Liberty, Chambers, Galveston, Brazoria, Wharton, Austin, Washington, and Grimes counties.

The United States Census Bureau divides metropolitan areas into statistical subdivisions called census tracts (CTs). The Census Bureau provides information on each CT, including population, household composition, employment and income statistics. The information is updated every ten years. The following chart provides an overview of selected demographic information about the assessment area and the Houston PMSA as a whole, based on the 1990 census:

DEMOGRAPHIC INFORMATION	ASSESSMENT AREA	HOUSTON PMSA
Population	230,327	2,820,852
Number of Families	63,351	759,277
Percent Low-Income Families	9.8%	23.2%
Percent Moderate-Income Families	11.7%	16.6%
Percent Middle-Income Families	18.5%	19.2%
Percent Upper-Income Families	60.0%	41.0%
Percent of Families Below Poverty Level	4.2%	18.4%
Percent of Population Over Age 65	5.0%	7.0%
Number of Housing Units	93,495	1,269,927
Percent Owner-Occupied	55.6%	58.4%
Percent of Housing Rented	35.1%	21.5%
Median Housing Value	\$87,408	\$63,376

The bank's assessment area is composed of 37 CTs, none of which are designated as low- or moderate-income tracts. Of the 37 CTs, 13 are designated as middle-income tracts and 24 are upper-income tracts. Within the assessment area, there are 85,244 households and 63,351 families. About 21.5 percent of the families in the assessment area are categorized as being either low- or moderate-income. According to 1990 census information reflected in the above table, the bank's assessment area has a much higher concentration of middle- and upper-income families than the average for the entire Houston PMSA.

Various demographic information about the Katy and west Houston area is available. Information obtained from the Katy Chamber of Commerce indicates that the 1998 estimated population for an area within a five-mile radius of Katy is 87,118. This represents an increase of about 36 percent for this area since the 1990 census. The assessment area has prospered from the increase in population, and Katy has experienced a thriving economy of late. Major employers in the Katy/west Houston area include Compaq Computer, the Katy ISD and Baker Hughes. According to the Texas Workforce Commission, the 2000 annualized unemployment rate for Katy was 2.2 percent, compared to 4.1 percent for the Houston PMSA and 4.2 percent for the state of Texas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's quarterly average loan-to-deposit (LTD) ratio is considered reasonable given the bank's size and financial condition and the credit needs in the assessment area. CB's net loan-to-deposit ratio was 69.2 percent as of December 31, 2000 and the quarterly average ratio since the last CRA evaluation was 70.1 percent. The bank's performance under this criterion was

compared to other financial institutions based on their proximity, asset size and loan portfolio mix.

LTD ratio information for one of the similarly-situated banks was only available for a period of seven quarters. For purposes of comparison, the LTD ratio information was reviewed based on this period. Community Bank’s LTD ratio for the seven-quarter period was similar to the ratio calculated since the last examination, shown below at 71.6 percent. The other banks reviewed during this seven-quarter period had LTD ratios ranging from 65.1 to 73.3 percent. The following table summarizes this information. There were no other banks operating in Katy that were deemed appropriate for this comparison, based largely on the diversity in asset size and branch structure.

BANK	COUNTY	TOTAL ASSETS 12/31/00	LTD RATIO 12/31/00	QUARTERLY AVG. LTD RATIO*
Community Bank, Katy	Harris	\$115,133	69.19%	71.61%
1 st Choice Bank, Houston	Harris	\$115,039	75.93%	73.31%
Capitol Bank Jacinto City	Harris	\$101,358	66.31%	65.05%

*Quarterly average loan-to-deposit ratio is based on seven quarters of data.

As evidenced above, the quarterly average LTD ratio for CB is similar to the other banks in the area.

LENDING IN ASSESSMENT AREA

The bank’s performance under this criterion demonstrates a satisfactory response to the credit needs of its assessment area. A majority of commercial, residential and motor vehicle loans were extended to borrowers and businesses residing or operating in the bank’s assessment area. As shown in the table below, about 75 percent of the number of loans originated were inside the bank’s assessment area, based on the sample reviewed.

DISTRIBUTION OF SMALL BUSINESS/SMALL FARM, RESIDENTIAL AND MOTOR VEHICLE LOANS				
LOCATION	NUMBER	PERCENT OF NUMBER	DOLLAR AMOUNT	PERCENT OF DOLLAR VOLUME
Within AA	159	74.6%	\$8,068,343	75.6%
Outside AA	54	25.4%	\$2,602,791	24.4%
Total	213	100.0%	\$10,671,134	100.0%

The analysis included a sample of 57 motor vehicle loans with a total volume of \$899,296; 53 business loans totaling \$3,094,838; and 103 residential real estate loans totaling \$6,677,000. The sample period of the business and motor vehicle loans was from September 1, 2000 to February 28, 2001. The residential real estate loans were extended in the years 1999 and 2000. The following table depicts the dispersion of loans inside and outside the assessment area, by loan category:

ANALYSIS OF LENDING IN THE ASSESSMENT AREA								
LOAN TYPE	INSIDE ASSESSMENT AREAS				OUTSIDE ASSESSMENT AREAS			
	#	%	\$000'S	% OF \$	#	%	\$000'S	% OF \$
Home Purchase	36	76.6	3,201	64.8	11	23.4	1,736	35.2
Home Improvement	41	80.4	1,153	86.2	10	19.6	184	13.8
Refinancing	3	60.0	319	79.2	2	40.0	84	20.8
Small Business and Small Farm	41	77.4	2,849	92.1	12	22.6	246	7.9
Motor Vehicle	38	66.7	547	60.8	19	33.3	352	39.2
TOTAL	159	74.6	8,069	75.6	54	25.4	2,602	24.4

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

The bank's performance in this category reflects a satisfactory penetration among businesses of different sizes and individuals of different income levels. Under the Community Reinvestment Act, a small business is defined as one that generates gross annual revenues less than \$1 million. According to Dun & Bradstreet, there were 9,910 business establishments in the assessment area as of June 2000. The vast majority of these establishments, about 86 percent, reported gross annual revenues under \$1 million. The following chart provides the dispersion of these loans to businesses based on gross annual revenue.

DISTRIBUTION OF BUSINESS LENDING BY GROSS ANNUAL REVENUE		
LENDING BY BUSINESS REVENUE	Number of Loans	Percent of Loans
Less than \$1,000,000	37	90
\$1,000,000 or greater	4	10
TOTAL	41	100%

It is apparent that the bank is satisfactorily meeting the needs of small businesses, as 90 percent of business loans made within the assessment area were to businesses that had gross annual revenues of less than \$1 million. Of the 41 loans analyzed in the chart below, 76 percent were made for amounts of less than \$100 thousand. The average loan made to businesses in the assessment area was approximately \$58 thousand, indicating the willingness of the bank to extend credit to meet the needs of small businesses.

DISTRIBUTION OF BUSINESS LENDING BY LOAN SIZE		
LOAN SIZE	#	%
Less than or equal to \$100,000	31	76
\$100,001 to less than or equal to \$250,000	7	17
\$250,001 to less than or equal to \$1,000,000	3	7
TOTAL	41	100%

The analysis of lending to borrowers of different income levels is performed using the median family income for the Houston PMSA, as adjusted annually by the U. S. Department of Housing and Urban Development. The following table indicates the income level ranges for the year 2000. The analysis is performed by stratifying the sampled loans based on the borrower income bands noted in the table below:

HOUSTON PMSA HUD-ADJUSTED MEDIAN FAMILY INCOME	
INCOME LEVEL	2000
Low income	\$0 - <\$28,350
Moderate income	\$28,350 - <\$45,360
Middle income	\$45,360 - <\$68,040
Upper income	\$68,040 and up
Median Family Income	\$56,700

Of all areas reviewed, the bank's performance in extending loans to borrowers of all income categories was weakest for residential loan products. The type loans included for this analysis included home purchase, refinance of home purchase, and home improvement loans. As noted in the chart below, combined lending for HMDA purpose loans to low- and moderate-income borrowers totaled only 7.1 percent for the years 1999 and 2000. The representative proportion of low- and moderate-income families in the assessment area is 21.5 percent. Furthermore, the bank only made one home purchase loan to a low-income borrower during the two-year period reviewed.

DISTRIBUTION OF HMDA LOANS BY MEDIAN FAMILY INCOME LEVEL				
	LOW	MODERATE	MIDDLE	UPPER
Number of Loans	2	6	10	60
% of Number	2.5%	7.5%	12.5%	75.0%
Dollar Volume	\$128,000	\$206,000	\$434,000	\$3,747,000
% of Dollar Volume	2.7	4.4	9.3	80.2
Percent of Families	9.8	11.7	18.5	60.0

Information above excludes two loans for which income information was not available.

While these numbers are low, this information can be mitigated to a certain extent by further analysis of the market in which the bank operates. The median housing value of the assessment area is about \$87 thousand, which is considerably higher than the average home in the Houston PMSA, which is about \$63 thousand. Conversely, the median gross rent in the assessment area more closely approximates the figure for the Houston PMSA. These figures make it apparent that renting may be a more affordable solution to purchasing a home in some instances.

The distribution of the bank’s motor vehicle lending reflects an excellent penetration among individuals of different income levels. On both a number and dollar volume basis, the bank’s performance in making loans to borrowers of all income categories compares well with the income statistics of the community. Approximately 66 percent of the loans sampled were extended to borrowers who classify as low- or moderate-income individuals, while this demographic is composed of about 22 percent of assessment area families.

Furthermore, it is noted that the bank exhibits a willingness to make small dollar loans, as the sample produced evidence that the bank extends loans in amounts of less than \$3 thousand. About 18 percent of the automobile loans sampled were for \$5 thousand or less. The average motor vehicle loan was about \$16 thousand.

DISTRIBUTION OF MOTOR VEHICLE LOANS BY MEDIAN FAMILY INCOME LEVEL				
	LOW	MODERATE	MIDDLE	UPPER
Number of Loans	14	11	7	6
% of Number	37%	29%	18%	16%
Dollar Volume	\$144,507	\$163,590	\$93,257	\$145,468
% of Dollar Volume	26%	30%	17%	27%
Percent of Families	9.8	11.7	18.5	60.0

GEOGRAPHIC DISTRIBUTION OF LOANS

The focus of this assessment factor is to determine the bank’s performance in providing credit throughout all geographies, including those census tracts that are designated low- and moderate-income areas. As the bank’s assessment area consists of only middle- and upper-income geographies, an analysis under this criterion is not meaningful.

RESPONSE TO COMPLAINTS

The bank has not received any CRA-related complaints since the previous evaluation.

COMMUNITY DEVELOPMENT SERVICES AND QUALIFIED INVESTMENTS

In order to enhance its CRA rating, the bank elected to have its qualified community development investments and services reviewed. The examination procedures permit an “Outstanding” rating if the institution’s performance with respect to the five core criteria generally exceeds “Satisfactory” and its performance in making qualified investments and providing branches and other services and delivery systems in the assessment area supplements its performance sufficiently to warrant an overall rating of “Outstanding.” In this case, only three of the five performance criteria are applicable, as the bank does not have any low- or moderate-income geographies and has not received any consumer complaints under CRA. As the bank’s performance did not exceed the standards for “Satisfactory” in any of the categories analyzed, a rating of “Outstanding” is not deemed to be appropriate.

Despite not receiving additional credit for its investments and services under the CRA guidelines, it should be noted that the bank is very active in the affairs of the community. The bank serves as a responsible corporate citizen, and has a reputation for being among the most involved in helping to meet the needs of its community. The bank devotes time, energy and financial contributions to many worthwhile organizations and causes that make Katy a better place to live.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS (ECOA, FHA OR HMDA)

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the last Consumer Affairs Examination dated May 22, 2000.