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April 16, 2012

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

Tradition Bank  
RSSD #468954

5501 Bissonnet Street  
Houston, Texas 77081

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.

## TABLE OF CONTENTS

I. Institution's CRA Rating .....	1
II. Scope of Examination .....	1
III. Description of Institution .....	2
IV. Description of Harris, Fort Bend, and Montgomery Counties .....	5
V. Conclusions with Respect to Performance Tests .....	8
VI. Appendix A: Assessment Area Loan Distribution Tables .....	14
VII. Glossary .....	19

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**  
**The Lending Test is rated: Satisfactory.**  
**The Community Development Test is rated: Outstanding.**

The performance of Tradition Bank (bank) in originating loans to meet the credit needs of all segments of its community is rated "Satisfactory" for the period covered by this evaluation. The factors supporting this rating include:

- A reasonable net loan-to-deposit (LTD) ratio of 64 percent;
- A substantial majority of loans originated inside the bank's assessment area, including 87 percent of the number and 89 percent of the dollar volume; and
- A reasonable distribution of loans to borrowers of different incomes and businesses of different sizes.

Only one commercial loan was originated in a low-income census tract and less than 15% in moderate-income tracts. This reflects a poor dispersion of loans throughout the various geographic income levels in the bank's assessment area. Given the bank's performance in the other assessment categories, however, the poor rating in one assessment criterion does not lower the overall rating.

The bank's performance under the Community Development (CD) Test is rated Outstanding based on the following criteria:

- An excellent participation in community development investment opportunities, with a total of \$16.4 million in qualified investments made;
- An excellent level of community development services to local organizations promoting economic development and community services, as well as serving low- and moderate-income (LMI) people through its two branches in LMI areas; and
- An adequate level of community development loans, with \$8.2 million in CD loans extended.

## **SCOPE OF EXAMINATION**

The bank's lending performance with respect to the Community Reinvestment Act (CRA) was assessed by analyzing a sample of 64 small business loans totaling \$11.1 million and 115 Home Mortgage Disclosure Act (HMDA) loans totaling \$25.9 million originated by the bank between 2009 and 2011.

The evaluation was conducted under the Intermediate Small Bank (ISB) procedures. Under the guidelines, the following criteria were analyzed to determine the bank's lending test rating:

- average loan-to-deposit ratio since the last CRA evaluation;
- the overall lending within the bank's assessment area;
- the bank's lending to borrowers of different income levels and to businesses and farms of different revenue sizes;
- the bank's geographic distribution of loans within its assessment area; and
- the bank's response to written complaints with respect to the CRA performance in the assessment area.

In accordance with the examination procedures, HMDA data reported by the bank in 2009-2011 were reviewed. In addition, a sample of the bank's small business loans were reviewed by borrower gross annual revenues for loans originated since the last examination. Commercial loans were given the greatest weight, given the bank's business strategy and the overall dollar volume of the bank's portfolio. There were no complaints received regarding the bank's CRA performance; therefore, this criterion did not factor into the lending test rating.

Under the Intermediate Small Bank (ISB) procedures, the bank's qualified investments, CD services, and CD loans were reviewed to determine a community development test rating. This portion of the examination consisted of an evaluation of the bank's level of CD activities in relation to local needs and opportunities, as well as the bank's capacity to participate in such activities. The evaluation was based on qualified CD loans, investments, and services provided by the bank from the conclusion of the previous CRA evaluation in 2009 through December of 2011. The lending test rating and community development test rating were combined to determine the overall CRA rating.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment area.

## **DESCRIPTION OF INSTITUTION**

The bank has been a wholly-owned subsidiary of Tradition Bancshares of Delaware, Inc. Wilmington, Delaware since 2003 and is affiliated through common ownership with Texas Coastal Bank, Pasadena, Texas. Chartered in 1963, the bank has developed a growing market presence with nearly 50 years of service in the Houston area.

The bank is a full-service retail bank offering commercial loans, residential construction, home purchase, home improvement, home equity, direct new and used automobile and boat loans, and secured and unsecured personal loans. All banking locations originate loans. The Bellaire location is the central source for all mortgage loan decisions.

Deposit product offerings include certificates of deposit, checking, money market, savings, and NOW accounts. The bank also provides travelers checks, money orders, ATM and debit cards, safe deposit boxes, notary services, bank by mail and phone, Internet banking, and 24 hour night depository. Each branch location also includes an on-site ATM, with only the Bissonnet and Grand Parkway locations equipped to take deposits. There are no off-premise ATMs. The Bellaire branch serves as the main office.

The bank operates seven full-service banking offices in Harris, Fort Bend, and Montgomery Counties (part of the Houston-Sugar Land-Baytown, Texas Metropolitan Statistical Area). Four full-service branches are located in Harris County, two in Fort Bend County, and one in Montgomery County. Three of the branches are in Katy, three branches are in Houston, and one is in The Woodlands. All seven banking offices open Monday through Saturday at 9:00 a.m. The lobbies close at 4:00 p.m. Monday through Thursday, 6:00 p.m. on Friday, and noon on Saturday. Drive-thru banking is offered from 7:30 a.m. to 6:00 p.m. Monday through Friday, and 8:00 a.m. to noon on Saturday.

The bank's locations are shown in the following table:

<b>Branch</b>	<b>Address</b>	<b>County</b>	<b>CENSUS TRACT/ INCOME LEVEL</b>
Bellaire (main office)	5501 Bissonnet St. Houston, TX 77081	Harris	4216.00 Low
Alief	12300 Bellaire Blvd. Houston, TX 77072	Harris	4525.00 Moderate
Grand Parkway	1515 S. Grand Pkwy. Katy, TX 77494	Fort Bend	6730.00 Upper
Fry Road	2117 Fry Rd. Katy, TX 77449	Harris	5424.00 Middle
Katy	550 Pin Oak Rd. Katy, TX 77494	Fort Bend	6731.00 Upper
The Woodlands	3205 College Park Dr. The Woodlands, TX 77384	Montgomery	6907.00 Upper
The Plaza	5020 Montrose Blvd. Houston, TX 77006	Harris	4119.00 Upper

At December 31, 2011, the bank reported total assets of approximately \$454 million, gross loans of \$223 million, and total equity capital of \$42 million. The following table reflects the loan portfolio mix:

<b>PRODUCT</b>	<b>12/31/2011 \$(000's)</b>	<b>% OF LOANS</b>
<b>Real Estate</b>		
1-4 Family Res Construction Lns (03/2008)	4,450	1.99
Other Const Lns & Land Dev & Other (03/2008)	28,716	12.86
Farm Land	272	0.12
1-4 Family – Revolving	33	0.01
1-4 Family Res Secured by First Liens	28,752	12.87
1-4 Family Res Secured by Junior Liens	1,860	0.83
Multifamily	3,432	1.54
Lns Secured Owner Occupd NonFrm NonRes (03/2008)	63,665	28.51
Lns Secured by Other NonFrm NonRes (03/2008)	67,202	30.09
<b>Total Real Estate</b>	<b>198,382</b>	<b>88.83</b>
Indiv Other Revolv Credit Plans (3/2001)	369	0.17
Individuals - Other	6,375	2.85
<b>Total Loans to Individuals (3/2001)</b>	<b>6,744</b>	
Agricultural	263	0.12
Commercial and Industrial	14,301	6.40
Other	3,633	1.63
<b>Gross Loans</b>	<b>223,323</b>	<b>100.00*</b>

\*Percentages may not equal to 100 due to rounding.

The bank's ability to meet various credit needs of the community has not been hampered by its capacity to lend, its financial condition and size, product offerings, prior performance, legal impediments, or other factors. The bank was last evaluated under the ISB Examination Procedures by this Reserve Bank as of June 29, 2009, when a Satisfactory rating was assigned.

**DESCRIPTION OF HARRIS, FORT BEND, AND MONTGOMERY COUNTIES (portion of the Houston-Sugar Land-Baytown, Texas Metropolitan Statistical Area (MSA)):**

The assessment area consists of Harris, Fort Bend, and Montgomery Counties, which comprise a portion of the Houston-Sugar Land-Baytown, Texas MSA. Harris, Fort Bend and Montgomery Counties are contiguous. The Houston MSA is as one of the largest metropolitan areas in the country. The assessment area includes 754 census tracts, with the largest number of tracts located in Harris County in the Texas Gulf Coast region. Harris County is the fifth largest metropolitan area in the United States. Harris County is also the most populous county in Texas and the third most populous county in the United States.

Fort Bend County is southwest of Harris County. The county continues to experience accelerated growth and is one of the fastest growing counties in the country. Montgomery County is just north of Harris County and is recognized as the 24<sup>th</sup> fastest-growing county in the United States.

The following table provides further details by county:

County	2010 Population	Population Growth Since 2000	Major Cities
Harris	4,092,459	20.3%	Houston, Bellaire, Katy, Humble, and Pasadena
Fort Bend	585,375	65.1%	Sugarland, Missouri City, Rosenberg, and Richmond
Montgomery	455,746	55.1%	Conroe and The Woodlands

As of June 30, 2011, there were 95 financial institutions operating 1,323 banking offices in the assessment area. The bank ranked thirty fourth with 0.24 percent of the market share in the assessment area. Listed below is a summary of the bank's deposits as of June 30, 2011:

SUMMARY OF DEPOSITS (AS OF JUNE 30, 2011)				
COUNTY	# OF INSURED INSTITUTIONS	# OF BRANCHES	TOTAL DEPOSITS \$(000's)	BANK'S MARKET SHARE
Harris	89	1,059	131,935,024	0.20%
Fort Bend	40	130	6,527,917	1.14%
Montgomery	32	134	6,230,356	Less than 0.01%

Demographic and economic information impacting the bank's performance context are further discussed below. Information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of Census, 2000; the U.S. Department of Labor; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet; and the Texas Workforce Commission.

The following table details selected characteristics of the assessment area.

Tradition Bank Combined Demographics Report Harris, Fort Bend, and Montgomery Counties								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	65	8.6	65,556	6.5	22,399	34.2	228,737	22.5
Moderate-income	236	31.3	290,986	28.7	54,592	18.8	175,238	17.3
Middle-income	215	28.5	298,736	29.4	24,812	8.3	189,466	18.7
Upper-income	230	30.5	359,883	35.5	10,795	3.0	421,720	41.5
Unknown-income	8	1.1	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>754</b>	<b>100.0</b>	<b>1,015,161</b>	<b>100.0</b>	<b>112,598</b>	<b>11.1</b>	<b>1,015,161</b>	<b>100.0</b>
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	103,526	27,013	3.2	26.1	66,326	64.1	10,187	9.8
Moderate-income	441,903	191,317	22.8	43.3	215,122	48.7	35,464	8.0
Middle-income	464,602	254,187	30.4	54.7	179,919	38.7	30,496	6.6
Upper-income	516,841	364,980	43.6	70.6	120,845	23.4	31,016	6.0
Unknown-income	19	10	0.0	52.6	8	42.1	1	5.3
<b>Total Assessment Area</b>	<b>1,526,891</b>	<b>837,507</b>	<b>100.0</b>	<b>54.9</b>	<b>582,220</b>	<b>38.1</b>	<b>107,164</b>	<b>7.0</b>
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	12,339	4.8	10,838	4.7	807	5.8	694	5/4
Moderate-income	58,757	22.9	51,178	22.3	4,438	30.3	3,341	26.1
Middle-income	70,299	27.4	63,524	27.6	3,559	25.5	3,216	25.1
Upper-income	113,498	44.3	102,876	44.8	5,211	37.3	5,411	42.2
Unknown-income	1,294	0.5	974	0.4	166	1.2	154	1.2
<b>Total Assessment Area</b>	<b>256,187</b>	<b>100.0</b>	<b>229,390</b>	<b>100.0</b>	<b>13,981</b>	<b>100.0</b>	<b>12,816</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>89.5</b>		<b>5.5</b>		<b>5.0</b>



**Income Characteristics:** The assessment area contains 754 census tracts in Harris, Fort Bend and Montgomery Counties combined. There are 65 census tracts (or 8.6 percent) which are low-income, 236 census tracts (or 31.3 percent) that are moderate-income, 215 census tracts (or 28.5 percent) are middle-income and 230 (30.5 percent) that are upper-income. There are eight tracts with unknown income levels.

Nearly 42 percent of families are considered upper-income. Low-, moderate-, and middle-income families account for 22.5 percent, 17.3 percent and 18.7 percent of the population respectively. Approximately 11 percent of families live below the poverty level based on 2000 census data. The HUD estimated median family income for the Houston-Sugar Land-Baytown metropolitan area was \$63,800 in 2009; \$65,100 in 2010 and \$66,000 in 2011.

**Housing:** As of the 2000 census, there are 1,526,891 housing units located in the assessment area; 54.9 percent are owner-occupied, 38.1 percent are rental and 7.0 percent are vacant. Approximately 44 percent owner-occupied units are concentrated in the upper-income census tracts. Moderate-income tracts contain 23 percent of the owner-occupied units and middle-income tracts contain 30 percent. Only 3 percent of all owner occupied housing units are located in low-income census tracts. The median age of the housing stock was 24 years for the assessment area and 23 years for the state.

**Labor, Employment and Economic Characteristics:** Houston is home to the largest medical center in the world, the Texas Medical Center, which produces over \$10 billion in revenue annually. The area's economy is strong and includes a conglomerate of national and international companies in manufacturing, aerospace, biotechnology, and energy. Houston is also second only to New York City in Fortune 500 company headquarters, and more than 5,000 energy-related firms are located in the city. The Johnson Space Center, NASA's largest research and development facility which employs nearly 3,000 federal civil service workers and more than 14,000 contract personnel is located in Houston.

Other major employers include the University of Texas MD Anderson Medical Center, British Petroleum, Texas Children's Hospital, Continental Airlines, Lockheed Martin, Halliburton, and Reliant Energy. The table below compares unemployment rates for the assessment area with the State of Texas averages.

ANNUAL AVERAGE UNEMPLOYMENT RATES			
AREA	2009	2010	2011
Fort Bend County	7.1	7.8	7.3
Harris County	7.5	8.5	8.2
Montgomery County	6.8	7.5	7.2
State of Texas	7.5	8.2	7.9

**Community Contacts and Credit Needs:** Contact was made with community leaders working in affordable housing and economic development initiatives. With an economy stronger than the

national economy, these contacts have been able to continue projects regardless of the national economic downturn. There are opportunities for financial institutions to provide construction and small business financing as well as expand market presence.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

The overall performance for the bank under the Lending Test is rated Satisfactory. The bank's net LTD ratio is reasonable. A majority of loans (87 percent) were extended inside the assessment area. The distribution of loans to businesses of different sizes was reasonable with 58 percent of loans to small businesses were originated to borrowers with total revenues of less than a million dollars. The bank's HMDA lending distribution to LMI borrowers was poor, but greater weight was given to the reasonable dispersion of the bank's commercial loans. Given the performance context, the bank does a reasonable job of meeting the small business and consumer credit needs of its assessment areas.

## **LOAN -TO-DEPOSIT RATIO ANALYSIS**

The general purpose of the CRA is to encourage banks to meet the credit needs in their assessment areas while operating in a safe and sound manner. To gain an understanding of the bank's lending activity, the net LTD ratio is reviewed to approximate the credit demand of the assessment area and assess the bank's willingness to meet the community's demand for credit.

The bank's net LTD ratio is considered reasonable, given the bank's size and financial condition, the credit needs of the assessment area, and the competitive local banking environment. The bank's LTD ratio ending December 31, 2011 was 54.4 percent, and the quarterly average since the previous evaluation was 64 percent.

To better understand the bank's performance in relation to its assessment area, a comparison of six similarly situated banks was performed. These banks were chosen for analysis based on their proximity, similar size and structure, and several are ones that the bank considers to be prime competitors. These comparable banks had LTD ratios ranging from 43 percent to 88 percent as of December 31, 2011 and quarterly average ratios ranging from 51 percent to 90 percent. The bank's LTD ratios are generally in line with its peers, and reflect favorably upon the bank's efforts to meet the credit needs of its community.

## **LENDING IN THE ASSESSMENT AREA**

The analysis of the bank's CRA performance was based on a sample of 179 loans totaling \$37 million. A substantial majority of the loans were made in the bank's assessment area. As shown in the table below, the bank extended 87 percent of all HMDA and commercial loans within the assessment area. On a dollar volume basis, 89 percent were inside the assessment area.

ASSESSMENT AREA CONCENTRATION								
LOAN TYPE	INSIDE ASSESSMENT AREA				OUTSIDE ASSESSMENT AREA			
	#	%	\$000's	% of S	#	%	\$000's	% of S
Home Improvement	15	78.9	\$1,582	88.4	4	21.1	\$207	11.6
Home Purchase	61	88.4	\$17,552	91.4	8	11.6	\$1,659	8.6
Refinancing	24	88.9	\$3,981	81.6	3	11.1	\$897	18.4
Total HMDA related	100	87.0	\$23,115	89.3	15	13.0	\$2,763	10.7
Small Business	55	85.9	\$9,977	89.7	9	14.1	\$1,142	10.3
<b>Total SB related</b>	<b>55</b>	<b>85.9</b>	<b>\$9,977</b>	<b>89.7</b>	<b>9</b>	<b>14.1</b>	<b>\$1,142</b>	<b>10.3</b>
<b>TOTAL LOANS</b>	<b>155</b>	<b>86.6</b>	<b>\$33,092</b>	<b>89.4</b>	<b>24</b>	<b>13.4</b>	<b>\$3,905</b>	<b>10.6</b>

Percentages may not equal 100 due to rounding.

The remaining analyses will be based on loans made inside the bank's assessment area.

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

The distribution of lending based on income and revenue levels of the borrowers reflects a reasonable penetration among individuals of different income levels as well as businesses of different sizes. For the purposes of the evaluation, small business loans were assigned the greatest weight since this product is the bank's primary lending product by dollar volume.

As shown in Appendix A, approximately 58 percent of the sampled business loans were made to small businesses with gross annual revenues of \$1 million or less. For contextual purposes, the bank's small business lending was compared to the performance of the aggregate of larger banks that are required to report small business lending data to approximate loan demand. Smaller banks such as Tradition Bank are not required to report this data. The aggregate lenders reported making 30% of their loans to businesses with gross annual revenues of \$1 million or less.

Another way to gauge the bank's small business lending performance is to review the data by loan amount. As small businesses typically require smaller dollar credits, it is important to note that 25 percent of the bank's small business loans were made in loan amounts of \$25,000 or less, and 48.44 percent were in amounts of \$50,000 or less. Approximately 94 percent of the bank's loans were for amounts under \$100,000, which is comparable to the aggregate of large lenders who reported 93 percent of loans were under \$100,000. This performance demonstrates the bank's reasonable efforts towards meeting the credit needs of the area's small businesses.

The distribution of the bank's HMDA lending is considered poor, as the vast majority (71 percent) of the HMDA loans were originated to upper-income borrowers. Low- and middle-income borrowers each received one loan or 1.0 percent and moderate-income borrowers received four loans or 4.0 percent. This compares unfavorably to the demographics which indicate 23 percent and 17 percent of the assessment area families are low- and moderate-income, respectively. This performance also compares unfavorably to the market aggregate. The aggregate of HMDA lenders reported making 5 percent of loans to low-income borrowers, 15 percent to moderate-income borrowers, 18 percent to middle-income borrowers, and 52

percent to upper-income borrowers. The bank reported revenue unknown for 23 percent of its HMDA loans and the aggregate lenders reported that for 11 percent of their loans. As shown in the tables in Appendix A, with the exception of home improvement lending to moderate-income borrowers, the bank's performance is equally poor when home purchase, refinance, and home improvement loans are reviewed separately. The bank underperforms both the area demographics as well as the market aggregate. The bank's volume of home improvement lending to moderate-income borrowers is comparable to that of the aggregate lenders.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

As detailed in Appendix A, the bank's geographic distribution of lending reflects a poor dispersion throughout the assessment area. The bank originated just one small business loan or 1.8 percent to a business in a low-income census tract and only originated seven loans or 12.7 percent to businesses located in moderate-income geographies. Dunn and Bradstreet data indicates that 5 percent of small businesses are located in low-income census tracts and 22 percent are located in moderate-income census tracts. The larger financial institutions reported 3 percent and 19 percent of their business loans were made in low- and moderate-income tracts respectively. The bank originated 42 percent of its commercial loans to businesses in the middle-income geographies and 44 percent to businesses in upper-income geographies.

The bank's HMDA lending in low-income tracts is comparable to market aggregate for home purchase and refinance loans. Its performance for home improvement loans exceeds that aggregate in low-income census tracts. The bank made no home purchase loans in moderate-income census tracts compared to aggregate, which made 10 percent of its home purchase loans in moderate-income tracts. The bank's performance for refinance and home improvement loans in moderate income census tracts is comparable to that of the aggregate. Overall, the bank reported 37 percent of its HMDA loans in middle income census tracts and 57% in upper-income census tracts compared to 27 percent and 64 percent, respectively, for the aggregate lenders

## **COMMUNITY DEVELOPMENT TEST**

Given the performance context and available opportunities, the bank's responsiveness to meeting the CD needs in its assessment area is considered to be outstanding. The demographic and economic data all support the fact there are opportunities in counties within the bank's assessment area. The bank has a demonstrated focus on meeting the needs of LMI individuals with community development lending, services and investments. The bank has applied its community development resources strategically to meet the substance of community needs, primarily through initiatives providing social services targeted to LMI individuals in its community and supporting municipal utility districts serving affordable housing subdivisions.

**COMMUNITY DEVELOPMENT LOANS:** The bank's level of CD lending is adequate. The bank originated 16 community development loans in the assessment area totaling \$8,217,407.92

during the review period. The following table illustrates the distribution of the bank's qualified loans by community development purpose:

<b>COMMUNITY DEVELOPMENT LENDING</b>		
<b>Type of Loans</b>	<b>Number of Loans</b>	<b>Amount of Loans</b>
Community Services targeted to LMI/families	1	\$104,540.60
Revitalize & Stabilize LMI areas	3	\$2,619,757.47
Affordable Housing to LMI	3	\$271,976.54
Economic Development	9	\$5,221,133.31
<b>Total</b>	<b>16</b>	<b>\$8,217,407.92</b>

Some of the more significant loans are:

- A \$949,000 loan to transform an empty grocery store where small businesses are tenants and LMI people are employed;
- A loan for over \$100,000 to make improvements to athletic fields benefitting disadvantaged youth in an LMI area; and
- Two loans totaling \$4 million to renovate and enhance economic development and overall condition of an owner-operated truck stop operating in a LMI area.

**COMMUNITY DEVELOPMENT INVESTMENTS:** The bank's participation in qualified investment opportunities is excellent. Qualified CD investment activity consists of \$16,355,000 in municipal utility district (MUD) bonds. The bank has invested in 68 separate MUD bonds that directly benefit the bank's assessment area. These bonds qualify as community development investments because their purpose is to finance infrastructure and other improvements in affordable housing developments. In addition \$61,383 in qualifying charitable grants and donations were made to local organizations providing social services and promoting economic development in the bank's assessment area. The total CD investment activity is \$16,416,383.

**COMMUNITY DEVELOPMENT SERVICES:** The bank provides an excellent level of community development services to its assessment area. The bank's management and staff serve in leadership roles, contributing their business acumen and financial expertise to numerous organizations promoting economic development and community services in the area, including the following:

<b>COMMUNITY DEVELOPMENT SERVICES</b>		
<b>ORGANIZATION</b>	<b>COMMUNITY DEVELOPMENT PURPOSE</b>	<b>FUNCTION</b>
Bellaire Men's Club	Community Services to LMI Individuals	A bank officer sat on the Board of this non-profit that provides experience for male youth in philanthropic, social, and educational opportunities. The Bellaire Men's Club directs its activities to low-income youth.
Alief ISD Education Foundation	Community Services to LMI Individuals	A bank officer sits on the Board of the Education Foundation that provides funds for educational programs not available through tax revenues. The foundation directly targets LMI individuals for scholarships in the Alief ISD.
Houston Asset Building Coalition	Community Services to LMI Individuals	A bank officer is a member of the Coalition which provides free income tax assistance and financial education to LMI individuals.
Volunteer Income Tax Assistance	Community Services to LMI Individuals	A bank officer provided free income tax preparation for LMI individuals.
Sharpstown Public Improvement District	Revitalization & Stabilization	A bank officer serves as Vice Chairman of the Board of this organization that works to attract and supplement public and private capital investment in this LMI area.
Southwest Houston Redevelopment Authority Board	Economic Development	A bank officer serves on the Board of Directors as a part of this Tax Management Zone (TMZ). In partnership with the City of Houston, the TMZ promotes the safety, perception, and business climate in the southwest area of the city.
Greater Southwest Houston Chamber of Commerce	Economic Development	A bank officer serves on the Chairman's Circle which is responsible for planning efforts related to LMI activities.
Katy Area Economic Development Council	Economic Development	A bank officer is Governor and Treasurer of the Council.
Katy Rotary Club	Community Services to LMI Individuals	A bank officer served as Chair of the annual toy drive and offers technical expertise for their overall budget. The organization helps low-income families in the Katy area.

The bank also provides community development services to LMI individuals through its branches and other facilities in low- and moderate-income areas. The bank's main office and its Alief Branch are both located in LMI areas. Bank services are not varied based on the income level of the geography where the branches are located. As previously noted, all seven banking offices are open Monday through Saturday at 9:00 a.m. The branch office lobbies close at 4:00 p.m., Monday through Thursday, 6:00 p.m. on Friday, and noon on Saturday. Drive-thru banking is offered from 7:30 a.m. to 6:00 p.m. Monday through Friday, and 8:00 a.m. to noon on Saturday. All seven bank branches have on-site ATMs. The ATM located at the main office has deposit-taking capability. The bank offers a full array of retail banking services to meet the financial needs of all individuals in its assessment area.

### **RESPONSE TO COMPLAINTS**

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

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

APPENDIX A



### Commercial Loan Distribution Table

Assessment Area: HOUSTON-SUGARLAND-BAYTOWN MSA: HARRIS, FORT BEND AND MONTGOMERY COUNTIES

Income Categories	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000s)	%	#	%	\$(000s)	%
<b>By Tract Income</b>								
Low	1	1.8%	7	0.1%	0	0.0%	0	0.0%
Moderate	7	12.7%	2,208	22.1%	0	0.0%	0	0.0%
Low/Moderate Total	8	14.5%	2,215	22.2%	0	0.0%	0	0.0%
Middle	23	41.8%	4,074	40.8%	0	0.0%	0	0.0%
Upper	24	43.6%	3,688	37.0%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	55	100.0%	9,977	100.0%	0	0.0%	0	0.0%
<b>By Revenue</b>								
Total \$1 Million or Less	32	58.2%	2,355	23.6%	0	0.0%	0	0.0%
Over \$1 Million	23	41.8%	7,621	76.4%	0	0.0%	0	0.0%
Not Known	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	55	100.0%	9,977	100.0%	0	0.0%	0	0.0%
<b>By Loan Size</b>								
\$100,000 or less	39	70.9%	1,748	17.5%	0	0.0%	0	0.0%
\$100,001 - \$250,000	9	16.4%	1,508	15.1%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	4	7.3%	2,020	20.2%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	3	5.5%	4,700	47.1%	0	0.0%	0	0.0%
Total	55	100.0%	9,977	100.0%	0	0.0%	0	0.0%
<b>By Loan Size and Revenue \$1 Million or Less</b>								
\$100,000 or less	30	93.8%	1,379	58.6%	0	0.0%	0	0.0%
\$100,001 - \$250,000	1	3.1%	250	10.6%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	1	3.1%	726	30.8%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	32	100.0%	2,355	100.0%	0	0.0%	0	0.0%

### Aggregate Lender's Commercial Loan Distribution Table

Assessment Area: HOUSTON-SUGARLAND-BAYTOWN MSA: HARRIS, FORT BEND AND MONTGOMERY COUNTIES

	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000S)	%	#	%	\$(000S)	%
	<b>By Tract Income</b>				<b>By Tract Income</b>			
Low	2,646	3.4%	137,663	4.5%	11	2.5%	135	0.6%
Moderate	14,811	18.8%	723,125	23.6%	39	8.7%	1,050	4.9%
<i>Low/Moderate Income</i>	17,457	22.1%	860,788	28.0%	50	11.2	1,185	5.5%
Middle	19,446	24.6%	737,043	24.0%	149	33.3%	8,186	38.0%
Upper	39,543	50.1%	1,387,447	45.2%	227	50.8%	11,595	53.8%
Unknown	505	0.6%	36,272	1.2%	0	0.0 %	0	0.0 %
Tract Unknown	2,026	2.6%	47,892	1.6%	21	4.7%	580	2.7%
<i>Total</i>	78,977	100%	3,069,442	100%	447	100%	21,546	100%
	<b>By Revenue</b>				<b>By Revenue</b>			
Total \$1 Million or Less	23,332	29.5%	925,216	30.1%	302	67.6%	16,099	74.7%
	<b>By Loan Size</b>				<b>By Loan Size</b>			
\$100,000 or Less	73,499	93.1	1,011,596	33.0%	396	88.6%	7,922	36.8%
\$100,001 - \$250,000	2,594	3.3%	460,660	15.0%	27	6.0%	4,387	20.4%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	2,884	3.7%	1,597,186	52.0%	24	5.4%	9,237	42.9%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
<i>Total</i>	78,977	100%	3,069,442	100%	447	100%	21,546	100%

Income Categories	HMDA Loan Distribution Table							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
<b>Home Purchase</b>								
Low	1	1.6%	169	1.0%	0	0.0%	0	0.0%
Moderate	0	0.0%	0	0.0%	1	1.6%	155	0.9%
Low/Moderate Total	1	1.6%	169	1.0%	1	1.6%	155	0.9%
Middle	22	36.1%	3,068	17.5%	0	0.0%	0	0.0%
Upper	38	62.3%	14,315	81.6%	43	70.5%	12,540	71.4%
Unknown	0	0.0%	0	0.0%	17	27.9%	4,857	27.7%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>61</b>	<b>100.0%</b>	<b>17,552</b>	<b>100.0%</b>	<b>61</b>	<b>100.0%</b>	<b>17,552</b>	<b>100.0%</b>
<b>Refinance</b>								
Low	0	0.0%	0	0.0%	1	4.2%	62	1.6%
Moderate	2	8.3%	648	16.3%	1	4.2%	45	1.1%
Low/Moderate Total	2	8.3%	648	16.3%	2	8.3%	107	2.7%
Middle	13	54.2%	1,697	42.6%	1	4.2%	98	2.5%
Upper	9	37.5%	1,636	41.1%	16	66.7%	2,993	75.2%
Unknown	0	0.0%	0	0.0%	5	20.8%	783	19.7%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>24</b>	<b>100.0%</b>	<b>3,981</b>	<b>100.0%</b>	<b>24</b>	<b>100.0%</b>	<b>3,981</b>	<b>100.0%</b>
<b>Home Improvement</b>								
Low	1	6.7%	20	1.3%	0	0.0%	0	0.0%
Moderate	2	13.3%	100	6.3%	2	13.3%	55	3.5%
Low/Moderate Total	3	20.0%	120	7.6%	2	13.3%	55	3.5%
Middle	2	13.3%	63	4.0%	0	0.0%	0	0.0%
Upper	10	66.7%	1,399	88.4%	12	80.0%	1,499	94.8%
Unknown	0	0.0%	0	0.0%	1	6.7%	28	1.8%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>15</b>	<b>100.0%</b>	<b>1,582</b>	<b>100.0%</b>	<b>15</b>	<b>100.0%</b>	<b>1,582</b>	<b>100.0%</b>
<b>Multi-Family</b>								
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Low/Moderate Total	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Middle	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Upper	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
<b>HMDA Totals</b>								
Low	2	2.0%	189	0.8%	1	1.0%	62	0.3%
Moderate	4	4.0%	748	3.2%	4	4.0%	255	1.1%
Low/Moderate Total	6	6.0%	937	4.1%	5	5.0%	317	1.4%
Middle	37	37.0%	4,828	20.9%	1	1.0%	98	0.4%
Upper	57	57.0%	17,350	75.1%	71	71.0%	17,032	73.7%
Unknown	0	0.0%	0	0.0%	23	23.0%	5,668	24.5%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>100</b>	<b>100.0%</b>	<b>23,115</b>	<b>100.0%</b>	<b>100</b>	<b>100.0%</b>	<b>23,115</b>	<b>100.0%</b>

Income Categories	2010 Peer Group HMDA Loan Distribution Table							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	<b>Home Purchase</b>							
Low	1,246	1.5%	209,031	1.5%	5,379	6.7%	473,247	3.3%
Moderate	7,700	9.6%	1,043,653	7.3%	16,971	21.1%	1,964,710	13.7%
Low/Moderate Total	8,946	11.1%	1,252,684	8.7%	22,350	27.7%	2,437,957	17.0%
Middle	24,757	30.7%	3,522,382	24.6%	16,891	21.0%	2,474,992	17.3%
Upper	46,668	57.9%	9,499,906	66.3%	35,158	43.6%	8,342,215	58.3%
Unknown	215	0.3%	44,457	0.03%	6,187	7.7%	1,064,265	7.4%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>80,586</b>	<b>100.0%</b>	<b>14,319,429</b>	<b>100.0%</b>	<b>80,586</b>	<b>100.0%</b>	<b>14,319,429</b>	<b>100.0%</b>
	<b>Refinance</b>							
Low	818	1.3%	147,171	1.2%	1,267	2.0%	116,592	0.9%
Moderate	4,313	6.7%	630,934	5.0%	4,780	7.4%	522,578	4.1%
Low/Moderate Total	5,131	8.0%	778,105	6.1%	6,047	9.4%	639,170	5.0%
Middle	13,620	21.1%	2,155,851	17.0%	9,133	14.2%	1,219,586	9.6%
Upper	45,587	70.8%	9,763,333	76.8%	39,812	61.8%	9,183,354	72.2%
Unknown	72	0.1%	17,025	0.1%	9,418	14.6%	1,672,204	13.2%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>64,410</b>	<b>100.0%</b>	<b>12,714,314</b>	<b>100.0%</b>	<b>64,410</b>	<b>100%</b>	<b>12,714,314</b>	<b>100.0%</b>
	<b>Home Improvement</b>							
Low	51	1.7%	1,749	0.8%	220	7.1%	5,040	2.4%
Moderate	431	14.0%	17,123	8.2%	388	12.6%	13,980	6.7%
Low/Moderate Total	482	15.6%	18,872	9.0%	608	19.7%	19,020	9.1%
Middle	815	26.4%	44,667	21.4%	523	16.9%	22,572	10.8%
Upper	1,788	57.9%	145,353	69.6%	1,826	59.2%	154,575	74.0%
Unknown	1	0.0%	75	0.0%	129	4.2%	12,800	6.1%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>3,086</b>	<b>100.0%</b>	<b>208,967</b>	<b>100.0%</b>	<b>3,086</b>	<b>100.0%</b>	<b>208,967</b>	<b>100.0%</b>
	<b>Multi-Family</b>							
Low	13	9.7%	12,381	1.4%	0	0.0%	0	0.0%
Moderate	32	23.9%	104,027	12.0%	0	0.0%	0	0.0%
Low/Moderate Total	45	33.6%	116,408	13.4%	0	0.0%	0	0.0%
Middle	52	38.8%	342,045	39.4%	0	0.0%	0	0.0%
Upper	36	26.9%	352,869	40.6%	0	0.0%	0	0.0%
Unknown	1	0.07%	57,300	6.6%	134	100.0%	868,622	100.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>134</b>	<b>100.0%</b>	<b>868,622</b>	<b>100.0%</b>	<b>134</b>	<b>100.0%</b>	<b>868,622</b>	<b>100.0%</b>
	<b>HMDA Totals</b>							
Low	2,128	1.4%	370,332	1.3%	6,866	4.6%	594,879	2.1%
Moderate	12,476	8.4%	1,795,737	6.4%	22,139	14.9%	2,501,268	8.9%
Low/Moderate Total	14,604	9.9%	2,166,069	7.7%	29,005	19.6%	3,096,147	11.0%
Middle	39,244	26.5%	6,064,945	21.6%	26,547	17.9%	3,717,150	13.2%
Upper	94,079	63.5%	19,761,461	70.3%	76,796	51.8%	17,680,144	62.9%
Unknown	289	0.2%	118,857	0.4%	15,868	10.7%	3,617,891	12.9%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>148,216</b>	<b>100.0%</b>	<b>28,111,332</b>	<b>100.0%</b>	<b>148,216</b>	<b>100.0%</b>	<b>28,111,332</b>	<b>100.0%</b>

## GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** All agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services target to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- i. Low-or moderate-income geographies;
- ii. Designated disaster areas; or
- iii. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories; motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.