

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Bank of Houston

\_\_\_\_\_  
Name of Institution

Houston

\_\_\_\_\_  
City

Texas

\_\_\_\_\_  
State

Mario E. Fuentes

\_\_\_\_\_  
Examiner-in-Charge

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Zip Code

Table Of Contents

Page

## CRA PERFORMANCE ASSESSMENT

### 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 **Bank of Houston, Houston, Texas**, prepared by **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of September 23, 1996. 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.

The bank's record of lending to low- and moderate-income individuals and in low- and moderate-income geographies reflects the commitment to serving the needs of the assessment area. The sample reviewed revealed that 48 percent of mortgage loans, 53 percent of consumer loans, and 80 percent of small business loans were made to low- and moderate-income persons or small businesses with revenues under \$1 million. Additionally, participation of various community services indicates a dedication to ensuring low- and moderate-income areas benefit from the bank's community involvement. The bank received an outstanding rating at last CRA Assessment as of January 9, 1995.

The following table indicates the performance level of Bank of Houston, Houston, Texas, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	BANK OF HOUSTON 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 last examination.		

## DESCRIPTION OF INSTITUTION

The Bank of Houston ("BOH") is an independent financial entity in Houston, Texas, with its main office located at 5115 Main Street. In addition, a full-service branch which opened in November 1995, is located at 8002 Kirby. As of June 30, 1996, the bank had total assets of approximately \$154 million, a slight increase over the same period in 1995.

The primary lending emphasis for BOH continues to be consumer lending. Consumer loans account for 38.86 percent of the bank's portfolio. The other significant loan types are commercial (23.63 percent) and commercial/industrial loans (22.69 percent). The bank has experienced a slight decrease in total loans when compared to this same period last year.

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, or the lending opportunities available in the institution's assessment area, but is somewhat affected by the economic factors present in the assessment area.

The asset distribution by loan type is as follows as of June 30, 1996:

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 2,154	5.85
Residential 1-4	2,550	6.93
Multifamily	590	1.60
Commercial	8,347	22.69
Agricultural	28	0.08
Total Real Estate	13,669	37.15
Consumer:		
Open-end credit	0	0.00
All other	14,295	38.86
Commercial and Industrial	8,695	23.63
Agricultural	0	0.00
State and Political Obligations	0	0.00
Other	131	0.36
Total	\$36,790	100.00%

## DESCRIPTION OF HOUSTON MSA:

Houston, Texas, is located on the upper Gulf Coast prairies, 50 miles from the Gulf of Mexico. It is the seat of Harris County, the largest city in Texas, and the fourth most populous in the United States. The Bank of Houston ("BOH") is located in an area referred to as "Midtown". It is located immediately south of the city's central business district in close proximity to three major universities, numerous medical facilities, and museums. Major employers are Texas Medical Center, Shell Oil, and Southwestern Bell Telephone Company.

The bank has defined its assessment area as 269 census tracts within the Houston Metropolitan Statistical Area ("MSA"). The area consists of 63 low-income, 94 moderate-income, 47 middle-income, and 65 upper-income tracts. A review of 1990 Census data revealed that the unemployment rate for the assessment area is higher at 9.1 percent than the state rate of 7.0 percent. According to 1990 Census data, the median value of housing in the area was \$59,239, compared to the state average of \$58,941. The assessment area's percentage of owner-occupied units is lower than the percentage for the state, the percentage of rental units is higher than the state percentage, and the percentage of vacant units is higher by 2.6 percent. Interviews with two small business-related entities and one affordable housing advocate revealed the need for small bank participation in available programs. The contacts indicated that, especially where small businesses were concerned, there was a need for the "personal touch" which small banks could provide. The contacts indicated that oftentimes, it is easier to get a reply from a small bank than from a larger bank which may have to obtain an answer to a loan request from another city.

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The BOH's performance under CRA is acceptable. A review of the bank's loan-to-deposit ratio, lending in and out of its assessment area, and lending in the various geographies revealed adequate activity in low- and moderate-income areas and to persons of low- and moderate-income status. However, a comparison of the bank's loan-to-deposit ratio with other similarly-situated banks indicated BOH's ratio was relatively low. The strengths of this institution are its commitment to making consumer loans and a desire to meet the needs of customers in the bank's low- and moderate-income area. At the bank's option, a review of investments and services was conducted. The level of participation in available programs was interesting given the bank's size and competition in the local area even though these initiatives have no impact in determining the bank's CRA rating.. To ensure the needs of the low- and moderate-income community are met, bank officers have been featured speakers at two Parent Teacher Organization ("PTO") meetings of G.B.M. Turner Elementary School. One presentation focused on financial planning for the future and the other involved some basic consumer tips for parents. Furthermore, BOH has participated in the following loan programs:

- ! **Royal Bushman Association** - The bank donated \$500 for the creation of an arboretum next to a Third Ward elementary school. The Association will sponsor different environmental educational activities at the arboretum for schools located in the Third Ward.

- ! **Nehemiah Neighborhood Center** - BOH committed to donate \$1 thousand a year for five years, beginning in 1996 to this neighborhood center which is associated with the First Presbyterian Church located near the bank. A building located directly across from the bank was converted into a community center providing enrichment services for local children and parents.
- ! **The Renaissance Cooperative** - To assist in this organization's work with other area development efforts such as the Third Ward Redevelopment Coalition, to facilitate revitalization of Third Ward, the bank contributed \$1 thousand. The Cooperative serves to coordinate and administer these organizations, along with its own redevelopment. A local coalition of banks agreed to underwrite the organization's operating budget. One project the group is pursuing is acquiring and renovating multi-family housing units. The focus for the cooperative is now commercial and retail development at the Scott Street and Old Spanish Trail intersection. The deteriorating buildings of the commercial strip mall have been replaced with a new HEB grocery store and will contain other retail space.
- ! **Loving Arms Foundation** - The bank provided \$75 thousand interim financing for the purchase of land to build a new 50-unit facility to provide permanent supportive housing for families with parents and/or children with AIDS or HIV virus and comprehensive supportive services to homeless families. Services which the foundation will provide include educational/learning programs, life skills training, case management, nutrition education, play therapy, art therapy, individual testing/assessment, and parent support services such as counseling, food pantry, clothing pantry, etc.
- ! **Young Women's Christian Association (YWCA)** - The bank loaned \$150 thousand to the non-profit organization to provide support to begin a new community program and capital funds campaign.
- ! **Food for Kids, Inc.** - The bank loaned \$7 thousand to his non-profit organization funded by the state of Texas to provide food subsidies for underprivileged families.
- ! **Greater Zion Missionary Baptist Church** - A loan in the amount of \$100 thousand was granted to purchase seven lots near the church to renovate low income housing in the third ward community in which the historic church is located.
- ! **Stephanie Thompson dba Cultural Concepts** - The bank made a loan of \$38 thousand SBA low doc loan to this third ward business to renovate a retail store which specializes in clothing and other items relating to the Black culture and purchase inventory.
- ! **G.H. Radford D.D.S. and Associates** - The original request for \$124 thousand was denied by the Small Business Administration, but BOH made the loan out of its own funds. Dr. Radford is a dentist serving the third ward area. He used the loan proceeds to relocate his practice and upgrade the facilities. Working with

the Head Start program, Dr. Radford provides dental services to patients who could not otherwise afford dental care.

- ! **Re-Ward Third Ward, Inc.** - The bank funded almost \$14 thousand to purchase two lots for renovation. Upon completion of the repayment of principal, BOH agreed to waive all interest. Re-Ward Third Ward, Inc. is a non-profit organization whose primary purpose is to provide low- and moderate-income housing in the third ward area.

No substantive violations of the antidiscrimination (ECOA, FHA, or HMDA) laws and regulations were identified during the examination process. Bank management and staff were found to be knowledgeable of the requirements of those laws.

## LOAN TO DEPOSIT RATIO

The institution's average loan-to-deposit ratio is low in light of its performance context, which includes the institution's 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, and lending opportunities available in the institution's assessment area.

The bank's average loan-to-deposit ratio since the last consumer affairs examination is 26.05 percent. As of June 30, 1996, the bank's total loans represented 27.65 percent of total deposits. The unadjusted national peer ratio for the same period was 65.59 percent. In an effort to better evaluate the bank's performance in relation to its immediate peer group, a loan-to-deposit ratio analysis was made of four banks chartered in Houston, Texas, of similar asset size. The average ratio for those banks is 56.92 percent. To ensure a thorough analysis of the bank's competition's ratios was performed, the review focused on banks located within BOH's immediate assessment area. Twenty-five banks were located within our subject institution's assessment area, ranging in asset size from approximately \$21 billion to \$30 million. The two closest in terms of asset size to BOH were American Bank (\$165 million) and Omni Bank, N.A. (\$115 million). Loan-to-deposit ratios for these banks were 47.21% and 84.54%, respectively. When the portfolio mixes were examined, neither of these banks were even close to the subject bank in terms of the volume of consumer lending (8.33% and 9.29%) compared to 38.86% for BOH. The chart below details the findings when banks of similar asset size and geographic location were compared to the subject bank:

Bank Name	Assets (\$)	Deposit (\$)	Loans (\$)	Ln to Dep.	1-4 Fam.	Comm/ Ind.	Cons.
Bank of Houston	153,741	153,078	36,790	27.65%	6.93%	23.63%	38.86%
American Bank	164,911	144,468	69,179	47.21%	12.26%	38.15%	8.33%
Northwest Bank, N.A.	138,114	118,176	62,009	51.43%	8.07%	47.40%	8.70%
Houston National Bank	118,973	111,006	49,854	44.49%	21.01%	34.85%	8.17%
Omnibank, N.A.	114,815	99,250	84,273	84.54%	10.90%	25.56%	9.29%

The bank's high volume of consumer lending is commendable with respect to meeting the assessment area needs. However, the loan-to-deposit ratio is not considered reasonable in light of loan demand in the area as evidenced by credit needs identified through community contacts.

### LENDING IN ASSESSMENT AREA

A review of sampled loans originated in 1996 indicated most of the loans extended were located inside the assessment area; however, the institution might consider extending its assessment area to include the Houston MSA or Harris County. Examiner analysis was comprised of an evaluation of 42 small business loans, 34 mortgage loans (from the bank's 1995 and 1996 Home Mortgage Disclosure Act((HMDA))-Loan Application Register), and 157 consumer loans. The small business and consumer loan review included six months of activity and the mortgage review encompassed all HMDA loans approved in 1995 and 1996. Of the consumer loans sampled, approximately 69 percent were in the bank's assessment area, 79 percent of the small business loans were within the assessment area, and 82 percent of mortgage loans were within the assessment area.

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

A review of the bank's distribution of loans in its assessment area by business revenue and borrower income was performed on the sampled loans. The loan distribution among the various business revenues revealed a good distribution. Of the commercial loans sampled, 80 percent were less than \$100 thousand and were made to businesses with revenues of less than \$1 million. The chart below further details BOH's lending to small businesses in its assessment area.

1995 COMMERCIAL LOAN SAMPLE		
GROSS REVENUES OF BUSINESS (THOUSANDS)	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS
\$0 - 100	16	84.21
\$100 - 250	2	10.53
\$250 - 1,000	1	5.26
OVER \$1,000	0	0.00
TOTAL *	19	100.00

\*Total does not include 12 loans with missing income information and 11 loans outside the bank's assessment area.

The consumer loan analysis consisted of analyzing borrower income as a percentage of the Houston MSA median family income. A breakdown by income range for each category is detailed in the chart below:

HOUSTON MSA MEDIAN FAMILY INCOME \$46,000		
INCOME CATEGORY	INCOME RANGE AS A PERCENT OF MEDIAN	UPPER LIMIT OF RANGE
LOW-INCOME	0 - 50%	\$23,000
MODERATE-INCOME	50 - 80%	\$36,800
MIDDLE-INCOME	80 - 120%	\$55,200
UPPER-INCOME	120% and over	over \$55,200

An analysis of the loan distribution among the various income levels is detailed on the following chart and revealed a good distribution of loans.

Loan Sample by Income Level				
	Mortgage Loan		Consumer Loan	
INCOME CATEGORY	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS	NUMBER OF LOANS BY INCOME OF	PERCENT OF TOTAL LOANS
LOW-INCOME	7	24.14	21	38.00
MOD-INCOME	7	24.14	14	25.00
MID-INCOME	4	13.79	9	16.00
UPP-INCOME	11	37.93	12	21.00
TOTAL *	29	100.00	56	100.00

\*Totals do not include 5 mortgage loans and 39 consumer loans with missing information. Furthermore, 62 consumer loans and 7 mortgage loans were originated outside the bank's assessment area.

## GEOGRAPHIC DISTRIBUTION OF LOANS

The breakdown by income levels of the census tracts within the bank's assessment area is detailed below:

INCOME CATEGORY	NUMBER OF CENSUS TRACTS	PERCENT OF TOTAL CENSUS TRACTS
LOW-INCOME	63	23.42
MOD-INCOME	94	34.94
MID-INCOME	47	17.47
UPP-INCOME	65	24.17
<b>TOTAL TRACTS</b>	<b>269</b>	<b>100.00</b>

A review of the bank's distribution of loans in its assessment area among low-, moderate-, middle-, and upper-income geographies was performed on the sampled loans. The analysis of loan distribution among the various census tracts revealed a reasonable disbursement of loans. The chart below details the loan distribution in each income category by loan type.

Loan Sample by Census Tract						
	Commercial Loans		Mortgage Loans		Consumer Loans	
Income Category	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type
LOW-INCOME	9	29.03	13	46.43	24	25.00
MOD-INCOME	8	25.81	10	35.71	35	37.00
MID-INCOME	7	22.58	2	7.14	21	22.00
UPP-INCOME	7	22.58	3	10.72	15	16.00
<b>TOTAL *</b>	<b>31</b>	<b>100.00</b>	<b>28</b>	<b>100.00</b>	<b>95</b>	<b>100.00</b>

\*Total do not include 11 small business loans, 6 mortgage loans, and 62 consumer loans which were not in the bank's assessment area.

## RESPONSE TO COMPLAINTS

The institution has not received any written complaints about its CRA performance since the last examination.