

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

The State Bank of Texas

Name of Institution

Houston

City

Texas

State

Sharon D. Ford

Examiner-in-Charge

3330 Antoine

Street

Harris

County

77092

Zip Code

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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 **The State Bank of Texas, Houston, Texas**, prepared by **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of June 3, 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 major factors supporting the bank's rating were an excellent distribution by business revenue, a reasonable dispersion by borrower income, and a satisfactory distribution throughout the assessment area by census tract (CT) of the 80 consumer loans and 61 commercial loans sampled. Of the 141 loans sampled, 37% of the commercial loans were made to businesses with gross revenues of \$250 thousand or less, 39% of the consumer loans were made to low- and moderate-income individuals, and 27% of the consumer and commercial loans were made in low- and moderate-income CT's.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The State Bank of Texas</u> Houston, Texas PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The State Bank of Texas (SBOT) is a locally-owned, full service financial institution located at 3330 Antoine. As of March 31, 1996, the bank reported total assets of approximately \$47.9 million, which have increased by \$8.0 million or 10.0% on an annualized-basis since the last examination. During the same time frame, gross loans have increased by approximately \$6.8 million. The majority of this increase was comprised of \$2.6 million in real estate construction loans, \$1.9 million in commercial loans, \$1.3 million in commercial loans, and \$832 thousand in residential and consumer loans. Net loans and leases represented 54.3% of total deposits in comparison to 45.2% at the last examination. The bank's primary lending focus continues to remain in commercial and industrial loans to small businesses with annual sales between \$250 thousand and \$1.5 million. As can be seen in the following loan distribution table as of March 31, 1996, 53.3% of the bank's loan portfolio consisted of commercial and industrial and commercial real estate loans:

LOAN TYPE	DOLLAR AMOUNT	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$3,535	15.14%
Residential 1-4	3,838	16.44%
Multifamily	325	1.39%
Commercial	2,829	12.12%
Agricultural	153	0.65%
Total Real Estate	10,680	45.74%
Consumer:		
Open-end credit	15	0.06%
All other	3,031	12.98%
Commercial and Industrial	9,616	41.19%
Other	6	0.03%
Total	\$23,348	100.00%

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 the lending opportunities available in the institution's assessment area. According to SBOT's 1995 CRA Self Assessment Report prepared by Marple Management Services, Houston, Texas (Self Assessment), SBOT is in an excellent position to meet the credit needs of the community based upon its low level of problem assets (noncurrent loans and leases to gross loans equaled 0.03%), consistent profitability (SBOT's return on average was 0.9% in 1995 and

the bank has been profitable since 1993), and well-capitalized position (SBOT's tier 1 leverage ratio was 8.4%).

The bank was rated Needs Improvement at its last examination conducted as of January 4, 1993, by the Office of the Comptroller of the Currency

DESCRIPTION OF HARRIS COUNTY

The bank has defined its assessment area as Harris County, Texas. Harris County is located in the southeast portion of the state adjacent to the Gulf of Mexico. The local economy is considered stable, generally favorable, and enjoying slow albeit steady growth as it recovers from a severe oil and gas and real estate recession in the late 1980's. The major employers in the area are oil and gas, manufacturing, transportation and utilities, and retail and wholesale trade/commerce companies.

The Executive Director of Housing Opportunities of Houston, a private, non-profit, organization that provides affordable housing down payment assistance and counseling, indicated that the majority of Harris County's growth has been concentrated in the western portion of the county adjacent to Fort Bend County. The trend toward job and population migration to the suburbs has been evident since the end of World War II and has accelerated in recent years, according to the Senior Program Director of New Foundations For Neighborhoods (Foundations). Foundations is a non-profit organization owned by the Local Initiative Support Corporation, New York, New York, which was formed in 1979 by the Ford Foundation to assist CDCs in transforming distressed neighborhoods into healthy communities. Both community contacts indicated that there is a severe housing stock shortage and a strong demand for affordable housing purchase, home improvement, and rehabilitation loans, as evidenced by the estimated 10,000 plus waiting list for the city's affordable housing program.

The 1990 median family income (MFI) for Harris County and the Houston Primary Metropolitan Statistical Area (Houston PMSA) were \$30,970 and \$31,474, respectively, both of which exceeded the state metropolitan MFI of \$27,016. The Office of Housing and Urban Development updates MFI on an annual-basis and reported the 1995 Houston PMSA MFI at \$45,300. For CRA purposes, borrower income information is based on the latter figure. Of the 582 CTs comprising Harris County, 15% are low-income CTs, 31% are moderate-income CTs, 29% are middle-income CTs, and 25% are upper-income CTs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The institution's average loan-to-deposit (LTD) ratio is considered reasonable 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 the lending opportunities available in the institution's assessment area.

SBOT's average LTD ratio since the last examination equaled 51.2%. As of March 31, 1996, the bank's LTD ratio was 54.3%. The national peer LTD ratio for the same period was 63.4%. In order to fully understand the bank's performance in relation to its immediate peer group, a LTD ratio analysis was performed of 66 state chartered banks operating in Harris County. After taking into account asset size, loan portfolio mix, and other factors, it was determined that two peer banks were similarly-situated institutions and that both would serve as a more reasonable peer comparison. In consideration of SBOT's high level of unfunded loan and lease commitments of \$5.3 million or 11.0% of total assets, the LTD ratios of SBOT and the two similarly-situated institution's were adjusted to include the unfunded loan and lease commitments. As of March 31, 1996, SBOT's adjusted LTD ratio of 66.7% compared favorably with the adjusted LTD ratios for the two similarly-situated banks of 68.2% and 73.4%, respectively.

LENDING IN ASSESSMENT AREA

Based upon the bank's asset size, assessment area, and a sample review of 80 consumer and 61 commercial loans made in 1995 indicating that a majority of the loans were extended inside the assessment area, the institution is considered satisfactory in this performance criteria. Overall, 90% on a number-basis and 77% on a dollar-basis of the sampled loans were made inside the assessment area. Of the 80 consumer loans sampled, 91.3% on a number-basis and 65.4% on a dollar-basis were made inside the assessment area. Of the 61 commercial loans sampled, 88.5% on a number-basis and 85.3% on a dollar-basis were made inside the assessment area. Of the 141 loans reviewed, 14 were made outside Harris County.

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

A review of the bank's distribution of loans within its assessment area by business revenues and borrower income was performed on the 141 sampled loans.

Analysis of the loan distribution among the different business revenue levels as presented on the following table revealed a good distribution of loans. Of the 30 commercial loans analyzed, 37% were made to businesses with revenues of \$250 thousand or less and 36% were made to businesses with revenues greater than \$1 million. These numbers are quite favorable and are indicative of SBOT's lending emphasis towards small manufacturing, distribution, construction, and service businesses. Additionally, 90% of the commercial loans

made inside the bank's assessment area with business revenue data available were for amounts of \$100 thousand or less.

COMMERCIAL/BUSINESS LOAN SAMPLE BY INCOME LEVEL *				
NUMBER OF LOANS		GROSS REVENUES (GR)	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
4	13%	GR < 100M	\$66	5%
7	24%	100M <GR< 250M	\$162	12%
8	27%	250M <GR< 1MM	\$355	26%
11	36%	GR > 1MM	\$792	57%
30	100%	Totals	\$1,375	100%

* Totals and percentages exclude 6 business loans for which income data was not available, 7 business loans made outside the bank's assessment area, and 18 business loans in which the bank relied upon borrower income information instead of business revenue data.

Consumer loans using borrower income information were analyzed as a percentage of the Houston PMSA-MFI. The Houston PMSA includes the following Counties: Chambers, Fort Bend, Harris, Liberty, Montgomery, and Waller. A breakdown by income range for each category is detailed below:

HOUSTON PRIMARY METROPOLITAN STATISTICAL AREA MEDIAN FAMILY INCOME \$45,300		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0 - 50%	\$22,650
MODERATE-	0 - 80%	36,240
MIDDLE-INCOME	80 - 120%	54,360
UPPER-INCOME	120% and over	over 54,360

An analysis of the loan distribution of 70 consumer loans among the various levels as shown on the following chart indicates a reasonable dispersion of consumer loans among the various income level

categories. The bank's distribution of consumer loans on a number basis for low- and moderate-income borrowers of approximately 39% matched the 39% combined level of low- and moderate-income households in the Houston PMSA and closely matched the 40% combined level of low- and moderate-income households in Harris County, based upon 1990 United States Census figures.

CONSUMER LOAN SAMPLE BY INCOME LEVEL *				
NUMBER OF LOANS		INCOME CATEGORY	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
11	16%	Low-income	\$ 50	3%
16	23%	Mod-income	140	9%
19	27%	Mid-income	144	9%
24	34%	Upp-income	1,272	79%
70	100%	Totals	\$1,606	100%

* Totals and percentages exclude 3 loans for which income data was not available and 7 loans outside the bank's assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

A geographical breakdown for the 582 CTs in Harris County by income level based upon 1990 United States Census data is presented in the following chart:

INCOME CATEGORY	NUMBER OF CTs	PERCENT OF TOTAL CTs
LOW-INCOME	87	14.9%
MOD-INCOME	179	30.8%
MID-INCOME	169	29.0%
UPP-INCOME	147	25.3%
TOTAL TRACTS	582	100.0%

The bank's distribution of loans among the low-, moderate-, middle-, and upper-income CTs for each loan category is detailed on the following table:

Loan Sample by CT *				
	Commercial/Business 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
LOW-INCOME	1	2%	2	3%
MOD-INCOME	20	37%	11	15%
MID-INCOME	9	17%	24	33%
UPP-INCOME	24	44%	36	49%
TOTALS *	54	100%	73	100%

* Totals and percentages exclude 7 consumer loans and 7 business loans made outside the bank's assessment area.

An analysis of the loan distribution among the various CTs revealed a reasonable distribution of the consumer and business loans sampled. On an overall-basis, 26.7% of consumer and commercial loans sampled were made in low- and moderate-income CTs. Although the number of consumer and business loans in low- and moderate-income CTs on a percentage-basis fell below the 45.7% combined level of low- and moderate-income CTs in Harris County based upon 1990 United States Census figures, further review determined that a fairly high percentage of the CTs surrounding the bank where a substantial portion of its loans were made consisted of middle- and upper-income CTs. Additionally, management indicated that the low number of consumer loans made in low- and moderate-income CTs could also be attributed to the fact that many of its borrowers worked near the bank, but resided in middle- or upper-income areas throughout Houston.

RESPONSE TO COMPLAINTS

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

INSTITUTION'S STRENGTHS

An evaluation of SBOT's CRA performance indicates that its main strength reflects its primary lending focus, which is loans to small businesses with annual sales ranging between \$250 thousand and \$1.5 million. Analysis of the loan distribution among the different business revenue levels revealed an excellent distribution of loans, as 37% of the commercial loans sampled were made to businesses with annual revenues of \$250 thousand or less and 90% of the commercial loans sampled were for amounts of \$100 thousand or less. Additionally, 39% of the commercial loans sampled were made in low- and moderate-income census tracts. Another strength noted is the bank's highly satisfactory record of lending within its assessment area, which equaled 90% on a number-basis and 77% on a dollar-basis based upon a sample of 141 loans made in 1995.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS (ECOA, FHA, OR HMDA)

Although violations of Regulations B - Equal Credit Opportunity Act ("ECOA") and Regulation C - Home Mortgage Disclosure Act ("HMDA") were noted during the examination, no evidence of illegal discrimination or discouragement was found, as the ECOA and HMDA substantive violations appeared to be isolated and inadvertent in nature. As a result, the bank's CRA performance evaluation was not adversely affected by these violations.

