



LARGE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Public Disclosure

May 05, 2003

**Community Reinvestment Act
Performance Evaluation**

**Southwest Bank Of Texas National Association
Charter Number: 17479**

**4400 Post Oak Parkway
Houston, TX 77027**

Office of the Comptroller of the Currency

**Adc- Mid-size Banks - Blue
440 South LaSalle Street 2700
Chicago, IL 60605**

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, and should not 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

OVERALL CRA RATING	2
DEFINITIONS AND COMMON ABBREVIATIONS	3
DESCRIPTION OF INSTITUTION	6
SCOPE OF THE EVALUATION	8
FAIR LENDING REVIEW	10
CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS	11
LENDING TEST	11
INVESTMENT TEST	18
SERVICE TEST	20
APPENDIX A: SCOPE OF EXAMINATION	A-1
APPENDIX B: MARKET PROFILES FOR FULL-SCOPE AREAS	B-1
APPENDIX C: TABLES OF PERFORMANCE DATA	C-1

Overall CRA Rating

Institution’s CRA Rating: This institution is rated “**Outstanding**”.

The following table indicates the performance level of **Southwest Bank of Texas** with respect to the lending, investment, and service tests:

Performance Levels	Southwest Bank of Texas Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X	X	
High Satisfactory			X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- The bank’s lending volume is high given its size and competition in its primary market.
- The bank made a substantial majority of its Home Mortgage Disclosure Act loans and small loans to businesses inside the bank’s Assessment Area (AA).
- SWBOT's overall geographic distribution is good. The borrower distribution of loans is also good.
- The bank originated a significant number and dollar amount of community development loans during the review period, which had a positive impact on the Lending Test rating.
- The use of innovative and flexible loan products enhances the bank’s performance under the Lending Test.
- The bank has an excellent level of qualified community development investments given its resources and capacity.
- Service delivery systems are accessible to all geographies and individuals of different income levels in the AA.
- Community development services support the bank’s other community development efforts and address identified needs in the community. These services had a positive impact on the Service Test rating.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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 MA/assessment area.

Block Numbering Area (BNA): A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census Tract (CT): 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 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 population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted 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.

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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 household and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract or a block numbering area 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 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 (e.g., approved, denied, and withdrawn).

Home Mortgage Loans: such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing 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.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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 multi-state 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 multi-state metropolitan area, the institution will receive a rating for the multi-state 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.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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.

Description of Institution

Founded in 1990, Southwest Bank of Texas, (SWBOT), is a growth-oriented intrastate Mid-size banking company and has become the largest independent bank headquartered in Houston, Texas. With little more than \$50 million in assets and one location 12 years ago, the Bank now has \$5.2 billion in assets and 34 full-service banking centers. SWBOT is a subsidiary of Southwest Bancorporation of Texas, Inc. (SWB). SWB is headquartered in Houston, Texas and its size and scope of operations is reflected through SWBOT. SWBOT focuses on providing commercial lending, treasury management and investment services to businesses, private banking, wealth management and trust services for families and individuals, and retail and mortgage banking services. Historically, SWBOT's primary market emphasis has been on middle market and private banking clientele, and these will continue to be primary target markets. Real Estate based lending is the predominant type of lending activity, constituting the largest credit concentration in the bank. The use of technology for customer-driven solutions has been a hallmark of the Bank. SWBOT operates virtually exclusively in the Houston area market, though the strategic plan calls for intrastate expansion to other metropolitan markets. The initial emphasis is in Dallas, Texas, where a loan production office was opened earlier this year.

Acquisitions in 1997, 1999, and 2000 substantially expanded its branch network. The 1999 acquisition of Fort Bend County Federal Savings and Loan also resulted in the acquisition of a mortgage company, Mitchell Mortgage Company, which operates as a subsidiary of the bank. Management has elected not to include the activities of Mitchell Mortgage for this evaluation. There are no other subsidiaries or affiliates given consideration for this evaluation. With the expansion of the branch network, management has also begun targeting retail lending and services for expansion. Since the last CRA examination, the bank increased its branch distribution by opening five branches and acquiring sixteen branches and its deposits through acquisitions. SWBOT conducts ongoing internal and external marketing analysis in assessing the economic, demographic and ethnic composition of their assessment areas. This type of analysis has provided valuable insight to bank management in their development and delivery of products and services to a market that has experienced significant racial and ethnic changes. A centralized, score-driven retail underwriting system was implemented in 1999. Retail growth plans are modest but do represent a strategic commitment to retail banking. SWBOT also offers factoring services.

SWBOT is a registered securities dealer and offers retail non-deposit investment products. Management has demonstrated a strong commitment to use of technology in products, services, and operations. An in-house data center, primarily running turnkey software, provides data processing services. For a small mid-size company, SWBOT offers an array of cash management and technologically driven services that are comparable to and sometimes exceed those of larger competitors.

As of March 31, 2003, loans represent approximately 64% of SWBOT's total assets. The loan to deposit ratio was approximately 80%. The loan portfolio is comprised of 56% real estate secured loans, 37% commercial and industrial loans, and 4% consumer. Mortgage lending continues to be a small, but increasing portion of the bank's business. Tier 1 Capital is \$428 million.

There is a clear and significant support to community development lending and services by executive management of the bank. The board and management of the bank continue their efforts in directing significant resources toward community development loans, investments, and services. The CRA department is made up of a culturally and ethnically diverse group that is dedicated to serving and finding out the needs of the community. The 9 members of the department attend various meetings, training and community functions so that they can find out how to better serve the diverse needs of the community, especially in low and moderate-income geographies and with persons who are of low and moderate income. An experienced and qualified CRA Officer manages the CRA department. He is supported by 2 mortgage lenders, 2 community lenders, 1 data specialist responsible for the data input and reporting for both HMDA and CRA Small Business reporting, and support staff. The community lenders gather information about community development projects and other community needs and inform them about the bank's willingness to participate in loans and projects. Typical lending needs they may fund are a \$25,000 operating loan for a not for profit serving low and moderate income children in the Third Ward, to a \$2.5 million loan for a rent restricted multifamily housing project in Baytown, Texas. This lending group forges strong relationships with many groups in the community. They actively promote banking products and services as they identify needs of the geographies the bank serves. The affordable housing personnel work extensively with nonprofit organizations. They work with realtors and other referral sources to help, primarily, low and moderate-income families purchase homes. Most of the families they help are first time home purchasers and over 70% of the families receive some form of down payment or closing cost assistance through various internal and external programs that SWBOT is affiliated with (ex. Housing Opportunities of Houston, Federal Home Loan Bank, Southeast Texas Housing, etc.). Responsibilities of the Affordable Housing lending staff also include working with individuals who do not meet credit guidelines, assistance in exploring ways to qualify in the future or referring them to different seminars and classes that specialize in helping individuals with challenged credit or money issues. Supporting the mortgage loan officers are two mortgage loan processors. Three of the four members of the affordable housing staff are bilingual in Spanish.

The Bank's assessment area is primarily located in the greater Houston metropolitan area. All of Harris and Fort Bend counties are included in the Bank's assessment area as well as, portions of Chambers, Montgomery, Waller and Wharton. The Bank's branches are located in the following cities: Baytown, East Bernard, Houston, Katy, Kingwood, La Porte, Missouri City, Needville, Pasadena, Porter, Rosenberg, Spring, Sugar Land and The Woodlands.

In addition to traditional brick and mortar offices, the Bank has alternative methods for customers to transact business. They include "INFOLINE" an automated telephone banking 24 hours a day / 7 days a week; "Visa Check Card" a debit card that allows customers to pay for purchases without cash or checks; "Bank@home" which provides customers with access to all accounts via a home or office computer and [Billp@y](#) which allows customers to make payments to anyone, anytime, anywhere within the U.S.

No financial or legal impediments limit the Bank's ability to help meet the credit needs of its assessment area. The Bank was rated as having a "**Satisfactory Record of Meeting Community Credit Needs**" during its most recent CRA Performance evaluation, which was conducted by the Office of the Comptroller of the Currency on May 10, 1999.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank's performance under the Lending, Investment, and Service Tests. In evaluating the bank's lending performance, we reviewed SWBOT's residential mortgage loans, home improvement, home refinance, and small business loans. The evaluation period under the Lending Test was January 1, 1999 to December 31, 2002.

For community development (CD) loans and the Investment and Service Tests, the evaluation period is May 10, 1999 to May 5, 2003. The Investment Test conclusions are based on an evaluation of investments, grants, and donations made in the bank's AA's that meet the definition of community development. The Service Test was evaluated based on branch distribution, hours of operation, branch openings and closings, alternative delivery systems, retail and commercial deposit and loan products and services, and community development services.

Data Integrity

Prior to this CRA examination, OCC personnel verified the accuracy of data made available to the public in accordance with the Home Mortgage Disclosure Act (HMDA) and the CRA regulation. Public data includes home mortgage lending and small loans to businesses and farms. Community Development loans, investments, and services were reviewed to ensure they qualified as community development. Based on verification work performed, publicly reported lending data is considered accurate. All the data reported for the above categories were used in this evaluation.

Selection of Areas for Full-Scope Review

SWBOT operates in just one assessment area, encompassing the greater Houston metropolitan area.

Ratings

The bank's overall rating is based on one assessment area, the greater Houston metropolitan area. Small business lending was given the greatest weight under the Lending Test since 65% of the bank's CRA reportable loans were small business loans followed by home improvement loans.

Other

As part of this evaluation, three contacts were made with community organizations or other parties in the Houston area. These contacts were very positive in their assessment of SWBOT's activities in its community. One of the contacts was an affordable housing developer who stated "SWBOT was known by the African-American ministers as the bank of choice for development loans". Information gathered from other contacts made in the community during the evaluation period was also reviewed. These contacts were

governmental agencies, and entities involved in community development as well as nonprofit agencies that provide services to the community. The contacts indicated a high level of community development opportunities and that banks in the areas have been responsive in meeting community credit needs. The primary needs identified by the community contacts are affordable housing, small business and technical assistance.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated "Outstanding". The bank's performance in the Houston AA is excellent.

SWBOT's rating was based primarily on its strong lending performance in making small loans to small businesses, which was enhanced by very strong community development lending addressing the needs for affordable housing, community services targeted to low- and moderate-income households, and activities that revitalize or stabilize depressed areas. Since 65% of the bank's CRA reportable loans were small business loans, more weight was given to small business lending in evaluating the bank's performance under geographic distribution and income distribution. More weight was given to home improvement lending, followed by home purchase lending in evaluating home mortgage lending performance. Refinance loans were given minimal weight. Small farm lending and multi-family housing lending were not included in this analysis since there were not a sufficient number of loans originated to make analysis meaningful. Multi-family housing loans were considered under the community development lending analysis if they qualified as community development loans.

Lending Activity

Refer to Tables 1 Lending Volume and 1 Other in Appendix C for the facts and data used to evaluate the bank's lending activity.

SWBOT's lending levels reflect a good responsiveness to credit needs in the assessment area considering its size, resources, deposit market share, and primary business focus. To analyze SWBOT's lending activity, we compared the bank's market rank and share of deposits and loan originations in the Houston assessment area. Based on 2001 FDIC deposit market share data, SWBOT was the sixth largest deposit taking financial institution in the assessment area, with a 4.69% share.

Approximately 65% of the number of SWBOT's reported loans was small loans to businesses. Approximately 35% were home mortgage loans. Among the home mortgage loans originated in the Houston AA, approximately 53% were for home improvement, 33% for home purchase, and 14% for refinance.

Small business lending activity is good. SWBOT reported 5,571 small business loans totaling \$807 million over the evaluation period. Although SWBOT ranks 15th in the AA with a 1.31% overall market share based on 2001 originations, the bank ranks fifth in small business lending by dollar volume with a 6% market share. Four large national lenders originated 54% of the small business loans in the bank's AA with an average loan amount under \$4,000. Several of the top small business lenders in the AA are national credit card issuers. Overall, the level of home mortgage lending is considered good. Home Improvement lending activity is excellent

with market rank and market share in line with deposit market rank and market share. Home purchase and refinance lending activity is adequate after considering the presence of a large number of non-bank HMDA lending competitors that do business within this assessment area. The bank also originated over \$84 million in community development loans, which is considered an excellent level for the bank's size and resources. Refer to the Section on Community Development Lending for details.

Overall, reportable loan volume is considered high given the significant competition for home mortgage and small business loans in the assessment area. Over 480 lenders reported one or more HMDA loans. Lenders included large national mortgage lenders as well as non-bank entities. Over 200 lenders originated small business loans in the assessment area including large national lenders.

Distribution of Loans by Income Level of the Geography

The geographic distribution of SWBOT's CRA reportable loans is good. The geographic distribution of home mortgage loans is adequate and the geographic distribution of small loans to businesses is good.

Refer to Tables 2 - 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's loan origination and purchases in the Houston AA.

Home Mortgage Loans and Small Loans to Businesses

Refer to the following table for conclusions reached on the bank's geographic distribution of home mortgage loan originations for home purchase, home improvement, and refinance products. The analysis focuses separately on low-and moderate-income geographies, and performance is considered good to excellent, if the percentage of loans originated and purchased in those geographies is near to or exceeds the percentage of owner-occupied housing units in those geographies. The other measure of performance is the comparison of the bank's overall market share of home mortgage loans originated and purchased in the AA to the bank's market share of home mortgage loans in each income level of geography in that AA. The bank's performance within an AA is considered good to excellent, if its market share in low- and moderate-income geographies substantially meets or exceeds its overall market share.

Also, refer to the following table for conclusions reached on the bank's geographic distribution of small loans to business originations. The analysis focuses separately on low-and moderate-income geographies, and performance is considered good to excellent, if the percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in those geographies is near to or exceeds the percentage of businesses located in those geographies. The other measure of performance is the comparison of the bank's overall market share of small loans to businesses in the AA to the bank's market share of small loans to businesses in each income level of geography in that AA. The bank's performance within an AA is considered good to excellent, if its market share in low- and moderate-income geographies substantially meets or exceeds its overall market share.


We gave weight to both performance evaluation methods (demographic and market share) when deriving conclusions for the geographic distribution of small loans to businesses and home mortgage loans. We placed less emphasis on the market share data analysis for home purchase and refinance loans since the bank’s overall market share for these products was less than 1 percent. We gave equal weight to market share data for home improvement and small business loans. For home mortgage lending, since only 4.97% of owner-occupied housing units were located in low-income geographies more weight was given to performance in moderate-income geographies which contained 20.54% of owner-occupied housing units. In addition, 38.36% of the households in low-income tracts are below the poverty level, which further limits the opportunities for making home mortgage loans in these tracts and was considered in evaluating the bank’s home mortgage lending performance in low-income geographies.

The following table displays our conclusions for geographic distribution by each reportable loan product for low- and moderate-income census tracts. The table shows the bank’s performance during the January 1, 1999 through December 31, 2002 time period.

Product	Geographic Distribution 1999-2002		
	Low	Mod	Overall
Home Purchase	G	E	Excellent
Home Improvement	P	P	Poor
Refinance	P	A	Adequate
Small Business	A	G	Good
Overall Lending	A	G	Good
Overall Conclusion			Good

A – Adequate, E – Excellent, G – Good, P – Poor, VP – Very Poor, NA – Not Applicable

Lending Gap Analysis

We did not find any unexplained conspicuous gaps while analyzing home mortgage and small business loans in the Houston  assessment area.

Inside/Outside Ratio

The bank’s distribution of loans inside and outside its AA is excellent. A substantial majority (91%) of the reported loans over the evaluation period were originated within the bank’s AA. By loan type, 88% of home purchase, 88% of home improvement, 89% of refinance, and 94% of small business loans were originated within the assessment areas. This performance was positively factored in the overall analysis of the geographic distribution of lending.

Distribution of Loans by Income Level of the Borrower

SWBOT’s distribution of home mortgage loans to borrowers of different income levels is adequate. The distribution of loans to businesses with revenues of \$1 million or less is good.

Refer to Tables 8 – 11 in Appendix C for the facts and data used to evaluate the borrower distribution for the bank's loan originations and purchases in the Houston AA.

Home Mortgage Loans and Small Loans to Businesses

Refer to the following table for conclusions reached on the bank's borrower distribution of home mortgage loan originations for home purchase, home improvement, and refinance products. The analysis focuses on performance in lending to low- and moderate-income borrowers. Performance in lending to low-income borrowers can be considered good to excellent even though the percentage of loans originated and purchased to such borrowers is lower than the percentage of low-income families in the AA. This guideline recognizes the barriers that lenders may face in originating home mortgage loans to low-income borrowers. Performance in lending to moderate-income borrowers is considered good to excellent, if the percentage of loans originated and purchased to moderate-income borrowers is near to or exceeds the percentage of moderate-income families in the AA. The other measure of performance for borrower distribution is a comparison of the bank's market share of home mortgage loans originated and purchased in an AA to the bank's market share of home mortgage loans to each income level of borrower in that AA. The bank's performance within an AA is considered good to excellent if its market share to low- and moderate-income borrowers substantially meets or exceeds its overall market share.

Also, refer to the following table for conclusions reached on the bank's performance in making loans to businesses of different sizes. The data provided to analyze the bank's performance under this criterion include the percentage of businesses within the AA that have revenues of \$1 million or less (demographic data) and the percentage of reported small loans to businesses that were originated and purchased to businesses with revenues of \$1 million or less. The percentage of bank lending that went to small businesses compared to the percentage of businesses within the AA that have revenues of \$1 million or less provides an indication of the bank's performance relative to the need within the community. Performance that substantially meets or exceeds the performance reflected by the demographic data is considered good to excellent. The other measure of performance is a comparison of the bank's market share of small loans to businesses with annual revenues of \$1 million or less to the bank's overall market share in making small loans to businesses. Performance is considered good to excellent, if the bank's market share of loans to small businesses substantially meets or exceeds the bank's overall market share.

We gave weight to both performance evaluation methods (demographic and market share) when deriving conclusions for the income distribution of home mortgage loans and the distribution of small business loans to businesses of different sizes. We placed less emphasis on the market share data analysis for home purchase and refinance loans since the bank's overall market share for these products was less than 1 percent. We gave equal weight to market share data for home improvement and small business loans.

The following table shows our conclusions by each reportable loan product for borrower distribution and small loans to businesses of different sizes. Specifically, the table shows conclusions reached for lending distribution to low- and moderate-income borrowers and to small businesses with revenues equal to or less than \$1 million. The table shows the bank's performance during January 1, 1999 through December 31, 2002 time period.

Product	Borrower Distribution 1999-2002			
	Low	Mod	<\$1mm	Overall
Home Purchase	G	E	NA	Excellent
Home Improvement	P	P	NA	Poor
Refinance	A	P	NA	Adequate
Small Business	NA	NA	G	Good
Overall Lending	A	A	G	Good
Overall Conclusion				Good

A – Adequate, E – Excellent, G – Good, P – Poor, VP – Very Poor, NA – Not Applicable

Community Development Lending

Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as CD loans. Table 5 does not separately list CD loans, however.

SWBOT has a high level of CD loans that demonstrates an excellent responsiveness to credit and CD needs in the Houston AA. SWBOT originated 62 loans totaling \$84.6 million, which represent 19.8% of Tier 1 capital. The level of lending had a significant impact on the community, demonstrates leadership and addresses the needs for affordable housing, community services targeted to low- and moderate-income households, and activities that revitalize or stabilize depressed areas. Refer to the Market Profile in Appendix B for additional information on CD needs and opportunities. The following examples highlight SWBOT's CD lending in the Houston AA.

- The bank originated 22 interim construction lines of credit (line) totaling \$36.3 million to builders who construct affordable single-family residences. The average line to these builders is approximately \$1.6 million. Three builders received lines with an average size of \$6.5 million. Other significant CD loans include 23 loans for the purchase and rehabilitation of affordable multi-family housing totaling \$27.5 million. For example, one non-profit community development corporation was granted a loan totaling \$14.3 million for the acquisition and rehabilitation of a 436-unit apartment complex in Houston. The corporation's primary purpose is to acquire and rehabilitate multi-family housing that will be leased to primarily low- and moderate-income tenants. Permanent financing was provided through the U. S. Department of Housing and Urban Development (HUD) 221(d)(4) Market Rate Program. The City of Houston provided \$1.9 million in subordinated debt.
- The bank originated a \$4.5 million loan to a non-profit organization located in Houston to fund a program that seeks to provide affordable housing and support services for homeless United States military veterans in the Houston area and to re-integrate them into society. The project consists of the adaptive re-use of an existing hotel located in midtown Houston. The project is an intensive program to move veterans who are homeless, on welfare or

have no source of income, into employment and residential stability. The project features a Career Center that will provide veterans with a variety of support services, life skills training and employment opportunities to assist project participants in reaching self-sufficiency. The facility will house 426 beds for which veterans will sign month-to-month leases for traditional residential use. The Houston site is funded primarily with revenue generated through the Department of Veterans Affairs VA Per Diem program, HUD 99 Funds, and the U.S. Department of Labor.

- The bank originated a loan totaling \$4.2 million to a non-profit educational organization in Houston. The organization is an academically rigorous college preparatory public school for at-risk students in grades five through nine. The school serves the entire Houston area with 90% of the students qualifying for the free lunch program. Loan proceeds were used to refinance an existing SWBOT loan whose original purpose was to purchase mobile trailers to be used as temporary classrooms, to purchase land, and to construct a permanent facility for the school.
- The bank provided a \$3.2 million secured loan for the purpose of constructing a 30,000 square foot shopping center that will add to a previously built 9,794 square foot retail center that currently employs 20 people. The loan revitalizes a low-income geography. The existing retail center along with the additional 30,000 square foot shopping center are located in the Southwest Houston area known as the “Gulfton Neighborhood”. The 30,000 square foot shopping center opened in July 2002, and is now 70% leased. According to recent information received by bank management, new tenants consist of a self-service laundry, a sandwich shop, two medical facilities, a gift shop, a dry cleaning company, a beauty shop, an insurance company, and a communications company. The shopping center reportedly created 43 new jobs for area low-income individuals.
- The bank originated a \$3.1 million loan to a non-profit organization that provides educational services to urban students from low-income families whose primary language is not English. Loan proceeds were used to build and equip a 39,000 square foot facility, refinance the school site, and pay costs of issuing tax-exempt bonds. The unsuccessful initial public offering resulted in SWBOT becoming the principal underwriter and accepting the bond structure as presented by a local securities company. SWBOT originated the unusual and accommodating loan in the form of four tax-exempt tranches that were issued by the Danbury Higher Education Authority. SWBOT’s loans will be repaid as the tranches mature. SWBOT’s actions helped to avoid delays that would have prevented the school from opening on time.
- The bank provided a \$2.1 million loan to a non-profit CDC for the acquisition and development of a 116-unit subdivision in the Fifth Street Community, known as Glen Park, in East Fort Bend County. The Fifth Street community is a “colonia” in the State of Texas, and by description is an unincorporated community, typically lacking potable water supply, adequate sewage systems, and decent, safe and sanitary housing. This project was designed to benefit the low- and moderate-income residents of Fort Bend County where in recent years growth has occurred at a rate of 6.25% per year, but few new homes are built that are affordable to low- and moderate-income households. The property is located in a Tax Increment Reinvestment Zone. Project partners include the City of Missouri City, the Fannie Mae Corporation, the Greater Fort Bend Economic Development Corporation, HUD,

and Ryland Homes, one of the nation's largest homebuilders of single-family homes that are targeted to entry-level and move-up buyers.

Product Innovation and Flexibility

The bank's use of innovative and flexible lending practices has a positive impact on the overall Lending Test conclusions. SWBOT makes extensive use of flexible lending practices that support small businesses and affordable housing, including programs that address the needs of low- and moderate-income individuals and geographies. Two of these programs are also considered innovative. The following is a description of the bank's flexible loan products offered in the AA:

Federal Home Loan Bank (FHLB) of Dallas-Community Investment Program

The FHLB community investment program provides favorable priced advances to assist member financial institutions in funding activities that expand housing for low- and moderate-income households, or that contribute to attracting, maintaining or expanding businesses in older neighborhoods and communities. During the evaluation period, SWBOT originated 2 loans totaling \$3.4 million under the program.

Federal Home Loan Bank of Dallas-Homebuyer Equity Leverage Partnership (HELP)

HELP funds are available to match savings accumulated by first-time homebuyers for down payment and/or closing costs at a maximum ratio of 4 to 1 not to exceed \$6000/homebuyer. SWBOT competed for, and was granted a \$50,000 down payment and assistance grant to help persons with incomes (adjusted by family size) that are 80% or less of median income. SWBOT originated 4 loans totaling \$238,500 during the evaluation period.

Gateway Initiative

SWBOT and a non-profit CDC combined to develop affordable housing in Houston through a unique and innovative partnership. The CDC is using the funds to donate, rehabilitate and move homes to new locations for sale to low-income families. As of December 31, 2002, SWBOT provided 9 loans totaling \$293,750 under the program.

Affordable Housing Department and Down Payment Assistance

The bank has an Affordable Housing Division located in the Community Lending Department of the bank. The bank offers specialized lending for low- to moderate-income persons who wish to purchase a home. SWBOT seeks partners who offer special incentives and programs so that the number one obstacle to buying a home (down payment and closing cost assistance) can be overcome. The bank has partnered with assistance programs such as **Housing Opportunity of Houston, Southeast Texas Housing Corporation, Baytown Housing Authority, Texas Department of Housing's Teacher Program** and the **Housing Authority of the City of Houston**. The Affordable Housing Mortgage program of the bank is targeted to home purchasers who need heightened assistance or qualify for special programs. During this review period, the department originated 244 loans for \$16,834,000. The average loan amount is \$68,900 with 90% of the loans for home purchases.

Southwest Bank of Texas Home Buyer Money Program

The Bank offers its own down payment assistance program for those who do not qualify for other readily available assistance. This program provides up to \$1,200 closing costs assistance to eligible, LMI borrowers purchasing homes in Harris, Fort Bend and Montgomery

counties. This is a first-time homebuyer program with maximum income and purchase price limits to qualify. There was no information available on the number and dollar amount of loans originated during this evaluation period.

Affordable Home Improvement Loans

Unsecured and secured home improvement products were developed in 2001 to specifically meet the needs of low- and moderate-income borrowers. Lower minimum loan amounts, extended repayment terms and modified underwriting guidelines are used to qualify borrowers with incomes less than 80% of the median family income. These loans are priced at the bank's standard consumer loan product rates. The development of these products is considered both innovative and flexible. The bank has originated 63 loans totaling \$348,751 under this program.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Investment Test is rated "Outstanding". The bank's investments in its designated Assessment Area are excellent. Please refer to Table 14 for the facts and data used to evaluate the bank's performance.

Southwest Bank of Texas, N.A. had 191 qualified investments totaling \$17,277,073 for the evaluation period of May 10, 1999 through May 5, 2003. Of this amount, 175 are grants/donations totaling \$551,925 and sixteen are equity or debt instruments totaling \$16,725,148. Included in this total is \$2,644,952 in remaining investment balances that carried forward from the prior evaluation period and its continued impact was considered in our evaluation. The current period and prior period sums constitute investments in eleven different projects or entities ranging from a \$12 thousand investment in a local community development corporation to a \$10.2 million investment in a low income housing project. Balances of all community development investments outstanding at April 30, 2003, represent 4.03% of the bank's Tier 1 Equity Capital (net of unrealized gains in securities).

Due to the unprecedented decline in market interest rates since the prior evaluation period, the book value of mortgage-backed securities in which the bank had invested during that period has declined by \$1,219,000. This decline is due in part, to rapid pre-payments and refinancing by the obligors on those issues. The decline was significant beginning in December 2002. In as much as the present economic environment and the pattern of recent market interest rate fluctuations have exceeded market expectations, consideration has been given to these unanticipated reductions in the evaluation of the bank's intended levels of investment.

The bank has made extensive use of innovative and complex qualified investments and has displayed significant leadership in its investment practices by considering a range of investment vehicles. The bank's levels of investments during this evaluation period are without any inherited CRA qualified investments that existed at the banks that were merged into SWBOT. The bank's investments demonstrate excellent responsiveness to identified affordable housing and small business needs in the assessment area. Specific examples of qualified investments include:

- Southwest Bank of Texas, N.A. is a founding member of the Third Coast Community Development Corporation into which it continues to make capital investments. This organization is a multi-bank CDC that provides access to needed capital and serves as a catalyst for economic development activities of entrepreneurs through micro and gap financing. SWBOT took the leadership role in working with other financial institutions to make this consortium a reality. Working as the treasurer and secretary, a bank officer was involved in all aspects of the formation of this CDC. This CDC continues to be an available source of business formation. The CDC helps small businesses receive loans that would otherwise be unavailable under traditional bank commercial lending guidelines. Third Coast has provided more than \$1.12 million in loans to small businesses, with \$423,000 funded as micro loans and \$706,000 as Small Business Development loans. Moreover, the banks were able to assist the businesses by working in tandem with Third Coast CDC to fund up to 50% of the Small Business Development loans with additional funding from the banks. The real beneficiary is the community since over 50 new jobs were created in the Houston CMSA with additional capital and the enhancement of cooperative approaches to community development. Creating the CDC allows for the focus on specific community needs and targets areas and projects closely related to the bank's strategic objectives of business banking. The collective group helps to control and efficiently manage costs often associated with Public/private financing approaches to community development.
- The bank has also contributed to and has participated with a Small Business Investment Partnership (SBIP), The Catalyst/Hall Group, Inc. (Catalyst/Hall). This group also provides financing to, and investment in, small businesses that also would otherwise find traditional commercial financing difficult to obtain. As distinguished from similar ventures that target "start-up" operations, Catalyst Hall provides the bank the opportunity to participate in more risk-oriented investments that assist latter-stage growth companies in need of capital for expansion or product development and marketing.
- SWBOT has participated in the purchase of tax credits accorded housing projects that meet certain criteria for availability to low-income residents. THOF V, Ltd., a limited partnership that the bank has invested in, provides equity contributions to several low-income housing projects. THOF V is a limited partnership formed under the Texas Housing Finance Corporation (THFC) to invest in tax credit transactions. To date, THFC has raised over \$76,000,000 in equity from corporate investors. This equity has been invested in tax credit developments creating over 3200 units of affordable housing. Part of THFC's mission includes capacity building to other non-profits in Texas. One mechanism for developing non-profit capacity is through THFC's predevelopment loan program. These predevelopment loans are awarded to non-profits that are involved in developing affordable housing. THFC created THOF V so that multiple banks could invest in tax credits that benefit Houston and other areas. SWBOT made a \$500,000 commitment to invest in this tax credit partnership and the funds were paid in as capital calls were requested. An apartment project included in the THOF V limited partnership is Almeda Park, a 196-unit apartment complex located in Houston, Texas. An affiliate of SWBOT, Mitchell Mortgage Corporation, is the permanent lender for the Almeda Park property units with a \$9.375 million loan through FNMA. The THOF V investment helps to create new units of affordable housing and is a way for SWBOT to be responsive to

community development needs. Additionally, with SWBOT's wholly owned affiliate, Mitchell Mortgage Company providing the permanent mortgage financing for one of the tax credit projects in THOF V, the bank is further solidifying its role in investing and lending in the community for affordable housing.

- In 1998, SWBOT agreed to invest \$75,000 (over three years) in ACCION -Texas as part of an initiative to bring this successful provider of small loans to Houston, Texas. The mission of ACCION is to provide credit to small businesses that do not have access to loans from commercial sources. ACCION helps micro entrepreneurs strengthen their businesses, stabilize and increase their income, create additional employment and contribute to the economic revitalization of their communities. A bank officer worked with ACCION to help them recruit loan officers of ACCION in Houston, create pay scales for loan officers and to host meetings at the bank's offices for other potential investors. SWBOT responded to ACCION's requests by being one of the first investors in this much needed loan fund. ACCION had a slow start in Houston, but as of the end of calendar year 2002, ACCION has made 352 loans in Houston for \$1.9 million for an average business loan amount of \$5400. The statistics as of September 2002 reveal that the average household income of the typical ACCION client is only \$29,600, which is far below the Texas median family income. The median asset level of a client's business is less than \$6000. Clients include taxi drivers, construction contractors, day care providers, food vendors and many other storefronts and home based businesses that require working capital.

Donations are to organizations that 1) promote affordable housing; 2) provide services for low-and-moderate income persons; 3) promote business/economic development in low-and-moderate income geographies; and 4) revitalize and stabilize the community.

The bank has done an excellent job of choosing donations, which meet the community development needs of poverty-stricken areas of the City of Houston. The bank made CRA-qualified donations totaling \$551,925. Of this total, \$284,580 was directed to a city-defined area in need of re-development. This represented 52% of the total donations. Refer to the Market Profile for Full Scope Areas for further description of the city-defined areas known as the "Wards".

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated High Satisfactory. Based on full-scope reviews, the bank's performance in the Houston AA is good.

Retail Banking Services

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

SWBOT's service delivery systems are accessible to geographies and individuals of different

income levels throughout the Houston AA. The bank operates 34 branches all of which are located within the Houston AA. The percentage of branches in low-income tracts is lower than the percentage of population residing in those tracts. 8% of the Houston population resides in low-income geographies. The percentage of branches located in moderate-income tracts is less than the percentage of the population residing in those tracts. However, several bank branches are within close proximity to low- and moderate-income geographies and are accessible.

SWBOT's record of opening and closing branches is good and has not adversely impacted the provision of financial services to any part of the bank's AA including low- and moderate-income geographies and to low- and moderate-income individuals. Five new branches were added in the Houston AA since the previous review, including one in a moderate-income CT. No branches were closed.

SWBOT operates a total of 66 ATMs throughout the Houston AA to supplement its delivery system. Of the 66 ATM's, 28 are considered full service (cash dispensing and deposit taking) and 38 are considered limited service (cash dispensing only). The dispersion of the ATMs represents a good distribution across the AA, including the low- and moderate-income CTs. One ATM representing 2% of the total is located in low-income CTs, and seventeen others, or 26%, are located in moderate-income CTs. Six ATM machines located in low- and moderate-income geographies accept deposits. All external ATMs are available 24-hours a day, seven days a week. However, some ATMs are located inside branch or office buildings and are subject to the hours of operation of the branch or building in which they are located. All ATMs have bilingual screens.

SWBOT's hours, services, and products offered do not vary in a way that inconveniences any portions of the assessment area, including low- and moderate-income CTs and individuals. Banking hours are consistent throughout the AA. The "standard" is 9AM to 5PM Monday through Friday. Drive-up facilities are generally open from 7:30AM to 6:00PM, with some open 9AM to 1PM on Saturday.

A variety of deposit and loan products, and business services, are available at all SWBOT branch locations. In addition to the range of loan and deposit products normally offered by a bank of SWBOT's size and complexity, several deposit products are responsive to the needs of low- or moderate-income individuals and small businesses. These products not only target low- and moderate-income individuals, but provide basic low cost banking products throughout the AA.

Alternative Delivery Services

Bank@home - Customers have access to accounts via home, office, or hotel room.

Numerous features are available to assist the customer in managing their finances.

Billp@y - Customers can make payments anywhere at anytime within the United States.

Basic service cost is \$6.49 per month, which includes 20 bills.

INFOLINE – Automated telephone banking 24 hours a day, 7 days a week.

We could not place significant weight on the Alternative Delivery Systems when drawing our CRA performance conclusions because no data was available on how LMI individuals or LMI geographies were affected.

Community Development Services

The bank's provision of community development (CD) services is excellent and has a positive impact on the overall Service Test conclusions. The bank provided a high level of services in leadership positions that were responsive to credit and CD needs.

Community development services are those that have community development as a primary purpose and are additionally related to the provision of financial services. Bank officers at all levels of the organization provide directorship and technical assistance on financial matters to CD organizations. The CD services provided by the bank primarily address the identified needs for affordable housing, economic development, and community services (refer to the Market Profile in Appendix B). The following highlights SWBOT's CD services in the Houston MSA AA:

- **Ministerial Conference on Community Development.** SWBOT continues its long tradition of hosting this one-day conference on community development. This "faith-based" conference is designed to educate pastors and lay ministers on how to secure and advance community development in their communities. The conference is cost free and open to the public. Conference topics include (1) community development lending, (2) affordable housing, and (3) social services. Featured panelists include local representatives from the City of Houston, Fannie Mae, and area community development corporations and churches who have completed successful projects. Attendance at this annual conference has increased from 100 people in 1997 to over 300 in 2003. Many of the attendees are pastors whose church and congregation reside in one of the Wards. Executive bank management, director(s) and bank personnel attend this conference and play an active role in ensuring the success of this conference. SWBOT has been very successful in generating loan volume and is considered a leader in Houston for community development. SWBOT is the only financial institution in Houston that provides this specific type of service and receives positive media exposure.
- **College of Biblical Studies.** A bank officer serves on the Neighborhood Builders' Advisory Council and provides technical assistance to the college's faith-based community development program. Specifically, the officer helped the college develop an 11 credit hour degree program that is recognized and certified by the National Congress for Community and Economic Development. Curriculum topics include (1) project funding and resources, (2) organizational models and collaboration, (3) affordable housing development and finance, (4) project planning and development, and (5) commercial real estate development and finance. The College of Biblical Studies Faith – Based Community Development Program has received funding from the Fannie Mae Foundation and the Houston Endowment to help this program reach out to the inner city and its faith based constituents.
- **Community Development Services (CDS).** CDS is a multi-state HOME Community Housing Development Organization provider in Texas. A senior bank officer provided technical expertise and helped to implement a Memorandum of Agreement in support of an application by CDS for the delivery of training and technical assistance under the 2001 Super Notice of Funds Availability of the U. S. Department of Housing and Urban Development. Under the agreement, CDS was awarded \$579,000 for its efforts.

- **City of Houston Brownfield's Redevelopment Program**. The City of Houston hosted a one-day workshop for stakeholders and developers who wish to find viable solutions to clean up and return contaminated sites to productive use. A senior bank officer was a speaker during the seminar and presented materials on Environmental Assessments and financing Brownfield projects.
- **Houston/Galveston Area Gulf Coast Area Council – Workforce Development**. A non-profit corporation that serves 13 counties in and around Houston. The council provides job placement/re-training to industrial workers that have been affected by job layoffs. An executive officer serves on the Board of Directors.
- **Houston Small Business Development Corporation**. The mission of the corporation is to assist the small business owner in the early stages of development with business planning and micro-loans. An executive officer serves on the Board of Directors and is a member of the loan committee.
- **PMI/Gateway Initiative – Avenue CDC Community Partner Program**. A senior bank officer collaborated with Avenue CDC and the PMI Group to develop this innovative “Community Partner Program” that provides affordable housing for low-income families in Houston’s North side area. Through Avenue CDC’s Move Home Program, donated homes are moved onto lots purchased by Avenue CDC in Houston’s First Ward, a low-income area of the city. The homes are then renovated and sold as affordable homes to low-income, first time homebuyers. The homebuyers also receive homebuyer education through the program.
- **Star of Hope**. This non-profit center provides family and emergency shelter, transitional living, career and personal development training to homeless men, women, and their children in the Houston area. An executive officer serves on the Board of Directors. Another officer presents a financial literacy seminar every six weeks for women that are graduating from the Transitional Center. The seminar is designed to educate them on finances, record keeping, and also gives them an opportunity to establish a deposit account with SWBOT.
- **Third Coast Community Development Corporation**. Third Coast CDC is a multi-bank CDC that provides small business and micro-loans to minority business owners in Harris and six surrounding counties. In addition to providing capital, the CDC promotes economic development. A senior bank officer was instrumental in the formation of the CDC and serves on the Board of Directors.
- **University of Houston Small Business Development Center**. A bank officer is a bilingual instructor at the center. She gives presentations on “How to Get a Business Loan.”

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD Loans): January 1, 1999 to December 31, 2002 Investment and Service Tests and CD Loans: May 10, 1999 to May 5, 2003	
Financial Institution	Products Reviewed	
Southwest Bank of Texas, N.A. (SWBOT) Houston, Texas	Home Purchase, Home Improvement, Home Refinance, Small Business, and Community Development Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Houston AA	Full Scope	

Appendix B: Market Profiles for Full-Scope Areas

Table of Contents

Market Profiles for Areas Receiving Full-Scope Reviews

Houston AA.....	B-2
-----------------	-----

Houston AA

Demographic Information for Full-Scope Area: Houston AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	669	11.21	28.40	30.94	27.35	2.09
Population by Geography	3,218,381	8.10	26.44	33.58	31.88	0
Owner-Occupied Housing by Geography	630,921	4.97	20.54	33.82	40.67	0
Businesses by Geography	274,811	5.42	22.46	31.13	40.75	0.24
Farms by Geography	4,276	2.88	16.30	38.80	42.00	.02
Family Distribution by Income Level	816,186	22.22	16.49	20.34	40.96	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	315,910	14.58	38.70	32.23	14.49	0
Median Family Income HUD Adjusted Median Family Income for 2002 Households Below the Poverty Level	= \$36,794 = \$59,424 =13.30%	Median Housing Value Unemployment Rate		= 75,129 = 3.53%		

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 1990 U.S. Census, and 2002 HUD updated MFI.

The City of Houston ranks as the fourth largest city in America and second in the number of Fortune 500 companies. It is home to the world's largest health care complex – Texas Medical Center and Johnson Space Center. The Houston Airport System ranks 4th nationally and 6th worldwide and generates over 90,000 jobs. The Port of Houston is a 25-mile-long complex of diversified public and private facilities located just a few hours' sailing time from the Gulf of Mexico. The port is ranked first in the United States in foreign waterborne commerce, second in total tonnage, and sixth in the world. Approximately 194 million tons of cargo moved through the Port of Houston in 2001. A total of 6,613 vessel calls were recorded at the Port of Houston during the year 2001. The city of Houston has shown dramatic changes in its population. The numbers of Anglos living within the city limits declined by 21% in the 1980's and by another 9% in the 1990's, while the populations of Hispanics and Asians were surging. In the 2000 census, the city of Houston, with almost 2 million inhabitants, was 37% Hispanic, 31% Anglo, 25% African-American, and 7% were Asian and other. More than half of all the pupils in the Houston Independent School District are Hispanic children.

SWBOT's CRA Performance Review is based on its assessment area, which includes the following counties: Chambers, Fort Bend, Harris, Montgomery, Waller and Wharton counties. All of the counties are located within the Houston MSA #3360, with the exception of Wharton County. Wharton County is located in a non-metropolitan area although it is contiguous to Fort Bend County. The Bank's assessment area is considered one assessment area. There are a total of 669 census tracts; 75 designated as low-income tracts; 190 designated as moderate-income tracts; 207 designated as middle-income tracts; 183 designated as upper-income

tracts; and 14 are unclassified. The bank has thirty-four branches located throughout the Houston metropolitan area. The Bank has locations in the following cities: Baytown, East Bernard, Houston, Katy, Kingwood, La Porte, Missouri City, Needville, Pasadena, Porter, Rosenberg, Spring, Sugar Land and The Woodlands.

Tax increment reinvestment zones (TIRZ's), are special districts authorized under State law and created by the City Council for the purpose of facilitating development of areas throughout the city that are not otherwise likely to attract investment in new development. The concept of the TIRZ program is that new public investment will catalyze private real estate development. The taxes generated by new development will be used to pay off the debt incurred for the new public improvements. There are currently 20 TIRZ's. Projects within the TIRZ areas include multi- and single-family housing, schools, and commercial and industrial developments. To date, TIRZ developments include the construction or remodeling of 2,364 single-family homes and 15,983 multi-family homes and the addition of 4.7 million square feet of commercial development.

The city of Houston was once broken into six official geopolitical divisions called the Wards. All of what is now downtown Houston lies within boundaries of the Wards. People living in the boundaries and just outside the old "official" boundaries associate themselves with living in one of the "Wards". All six Wards are part of the Houston Enhanced Enterprise Community.

First Ward is north of Washington Avenue, west of Main, south of I-10. Houston Avenue is its main thoroughfare. It is generally a working-class area, once a white majority, but now predominantly Black and Hispanic. A CDC and Church are two well known community groups active in housing, social services, food pantries and a well known free child care organization.

Second Ward is north of Congress, east of Main and south of Buffalo Bayou. Navigation serves as the major street for this now predominantly Hispanic, low-income area. There are two organizations that are active in reviving this area. These organizations have opened a childcare and after school center, and a center for day laborers to enhance their efforts in finding work with local contractors. The total population is 14,836, with the Hispanic population at 12,700, 1155 Black, and 680 Whites. There are 4300 housing units with 1465 owner occupied and 2500 renter occupied. A 2001 study by a local health organization revealed that 35.60% of the households earn \$15,000 or less, 19.40% earn \$15,000 to \$25,000, and 14% earn \$25,000 to \$35,000.

Third Ward is south of Congress, east of Main and north of Brays Bayou. Dowling is its main street. The City of Houston's Department of Housing and Community Development have designated the low-income distressed areas as a CDBG area. There is an umbrella organization coordinating efforts by 49 entities to breathe new life in the greater Third Ward area by developing affordable housing and economic development. A March 2001 report by a health related organization revealed that approximately 50% of the households living in this area earn \$15,000 or less and 16% make \$15,000 to \$25,000.

Fourth Ward is south of Congress, west of Main and north of Brays Bayou. West Dallas is its principal street. The Fourth Ward area has recently had a rebirth of housing due to several new affordable housing initiatives instigated by the City of Houston. Up to \$19,500 in down payment and closing costs is available for qualified buyers purchasing a new, affordable home in this area. This Ward has 1740 persons with 900 Hispanics and 638 Blacks. Total housing

units of 762 with only 37 owner occupied as of Year 2000. 72% of the households earn \$35,000 or less according to a independent 2001 report. 1,740 persons reside in this Ward with 900 Hispanics and 638 Blacks. Total housing units of 762 with only 37 owner occupied as of the Year 2000.

The Fifth Ward is north of Buffalo Bayou, west of Lockwood, south of Liberty and east of Main. This Ward developed approximately 25 years after the other Wards. Population is 80% Black and 20% Hispanic. This Ward is considered by area CDC's to be the lowest income area of the city according to 1990 census. From 1970 to 1990, areas of the Ward lost a third of the population, with majority of the population (60%) at the poverty level of below. The 1990 average household income is \$15,561 and the homeownership rate is 28%. The 1990 medium housing value was \$25,716. A total of 190 units (89 by Habit for Humanity) of affordable housing have been developed between 1990 and 2001.

Sixth Ward, is south of Washington Avenue, west of Houston Avenue, north of Memorial Drive and east of Glenwood Cemetery. The Sixth Ward has won recognition as a national historic district because its residents have restored many old Victorian style houses. The Ward is a mixture of Hispanics and Whites, where 65% of the residents are low-income. Between 1980 and 1990, the area experienced a 21% decrease in number of housing units with a 28% decrease in population. According to City of Houston statistics, the Washington Avenue area has a 2000 population of 18,500, with 10,300 Hispanics and 6,200 Whites and 1,400 Blacks. Three thousand of the 5,600 units are owner occupied.

The need for affordable housing and housing rehabilitation has continued to increase as well as the need to address housing deficiencies and overcrowding. The City's first priority is to provide housing and supportive services to its low-income population, including renters and homeowners. The City's endeavors in the area of homeownership include the rehabilitation of owner-occupied housing units. It plans to use CDBG and HOME funds and to leverage private sector resources. The City also makes available to these first-time home purchasers direct homebuyers assistance, such as mortgage assistance, down payment and closing cost assistance, and financial counseling. Housing priorities include the acquisition, rehabilitation and new construction of housing units for its elderly low-income residents by selecting projects that demonstrate an effective use of Federal funds and represent the best effort at leveraging private and nonfederal resources.

Despite the fact that Houston has the second lowest cost of living among major American cities, the barriers to affordable housing in the AA include the lack of sufficient down payment for many first-time homeowners. To overcome this obstacle, the City's Homebuyers Assistance Program commits resources to assist low and moderate-income persons with down payment and closing cost assistance. Other barriers of particular concern include building codes, tax policies affecting land use controls, fees and charges, growth limits, and policies that affect the return on residential investment. As a result, opportunities are available for community development loans, investments, and services.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table

also presents market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm.

Market share information is presented based on the most recent aggregate market data available.

Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL) - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

Table 14. Qualified Investments - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

Table 1. Lending Volume

LENDING VOLUME		Geography: HOUSTON AA						Evaluation Period: January 1, 1999 TO December 31, 2002				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Full Review:												
Houston AA	100.00	2,989	345,347	5,571	807,504	10	1,010	62	84,600	8,632	1,238,461	100.00

* Loan Data as of December 31, 2002. Rated area refers to either the state or multi-state MA rating area.
 ** The evaluation period for Community Development Loans is (May 10, 1999 to May 5, 2003).
 *** Deposit Data as of June 1, 2002. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

Table 5. Geographic Distribution of Multifamily Loans

Geographic Distribution: MULTIFAMILY		Geography: HOUSTON AA						Evaluation Period: January 1, 1999 TO December 31, 2002							
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
Full Review:															
Houston AA	29	100.00	9.96	20.69	34.09	65.52	32.32	10.34	23.64	3.45	0.89	0.00	2.17	0.00	0.00
Limited Review:															

* Based on 2001 Peer Mortgage Data: Southwest Region.

** Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

*** Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information.

Table 11. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES					Geography: HOUSTON AA		Evaluation Period: January 1, 1999 TO December 31, 2002		
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less
Full Review:									
Houston AA	5,571	100.00	66.76	56.74	67.65	15.56	16.78	1.31	1.84
Limited Review:									

* Based on 2001 Peer Small Business Data: US.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2002).

**** Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 3.21% of small loans to businesses originated and purchased by the Bank.

Table12. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS				Geography: HOUSTON AA		Evaluation Period: January 1, 1999 TO December 31, 2002			
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev \$1 Million or Less
Full Review:									
Houston AA	10	100.00	91.56	90.00	80.00	10.00	10.00	0.43	0.52
Limited Review:									

* Based on 2001 Peer Small Business Data: US.

** Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

*** Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2002).

**** Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 0.00% of small loans to farms originated and purchased by Bank.

Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: HOUSTON AA				Evaluation Period: May 10, 1999 TO May 5, 2003			
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
Full Review:									
Houston AA	6	\$2,645	179	\$14,632	191	\$17,277	100%	2	\$435
Limited Review:									

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.
 ** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

