

PUBLIC DISCLOSURE

January 5, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Katy Bank, N. A.
Charter Number: 18641
2117 Fry Road
Katy, Texas 77491**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza, 500 North Akard
Dallas, Texas 75201-3394**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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 **Katy Bank, N. A.** prepared by **The Office of the Comptroller of the Currency** the institution's supervisory agency, as of January 5, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated *satisfactory*.

Katy Bank, N.A. has a *satisfactory* record of meeting credit needs within the community, as evidenced by the following:

- ! A loan to deposit ratio which meets the standards for satisfactory performance;
- ! A majority of loan originations within the bank's assessment area;
- ! A reasonable distribution of loan originations to borrowers of different income levels and businesses of different sizes; and,
- ! No concerns as to the geographic distribution of lending within the assessment area; and,
- ! No consumer complaints regarding the bank's CRA performance were received since the prior examination. However, the bank has a satisfactory process to handle consumer complaints.

The following table indicates the performance level of **Katy Bank, N.A.** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>KATY BANK, N.A.</u> 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		N/A	
Response to Complaints	No complaints regarding CRA performance were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Katy Bank, N.A. is an \$18 million institution serving its customers with a main location

on Fry Road in Katy, Texas and a branch office on Avenue D in downtown Katy. The branch office recently opened on December 7, 1998. The main location has an automated teller machine (ATM) within the entrance to the building. An ATM is planned for the drive-in at the new branch office. To help meet credit needs, the bank offers general loan products for consumers and small businesses. Lending activity is in the following categories: real estate (63%), commercial and industrial loans (25%), individual loans (11%), and all other loans (1%). The bank refers almost all home purchase applications to another lender. The bank offers a variety of deposit accounts and other banking services.

DESCRIPTION OF ASSESSMENT AREA

The bank's designated assessment area includes nine census tracts in Harris County. Three census tracts are designated as middle income, and six are upper income tracts. Although the assessment area does not include low- and moderate-income tracts, the assessment area meets the requirements of the regulation, and the bank has not arbitrarily excluded low- or moderate-income geographies.

The assessment area had a population of 70 thousand people according to the 1990 census with 4% living below the established poverty level. Since 1990, the population has grown significantly. Katy Chamber of Commerce estimates of the population within a 5 mile radius of the main location indicate a population of 87 thousand people with projections of 97 thousand people by 2003. Chamber estimates of the ethnic composition in 1998 are white (85%), black (4%), Asian (6%), and other (5%). In 1990, approximately 2% of the population received public assistance and 9% received social security payments. Information for 1998 is not available.

According to the 1990 census, the assessment area had approximately 27 thousand housing units with 87% being one - four family units. Owner occupied units accounted for 69% of the total. The percentage of vacant housing units was 6% of the total. The median housing value was \$84 thousand, and the median monthly gross rent was \$576. As of the 1990 census, the Houston Metropolitan Statistical Area Median Family Income was \$36,886. The updated HUD Median Family Income is \$50,400.

The bank is subject to intense competition from several branches of large regional national banks, one community state bank, and other non-bank financial entities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The bank actively attempts to meet the credit needs of its assessment area. The loan to deposit ratio meets the standards for satisfactory performance and has averaged 60% since the prior Performance Evaluation dated December 19, 1996. Ratios since the prior examination compared to the bank's national peer group of similar size banks are close to the peer group and shown in Table 1. A comparison to the national peer group as of December 31, 1998 was not available.

Table 1

LOAN TO DEPOSIT RATIO FOR THE QUARTER ENDED	KATY BANK, N. A.	NATIONAL PEER GROUP
December 31, 1996	55.64%	60.87%
March 31, 1997	70.02%	61.16%
June 30, 1997	60.12%	62.68%
September 30, 1997	56.26%	63.81%
December 31, 1997	53.87%	61.78%
March 31, 1998	63.30%	62.14%
June 30, 1998	67.16%	63.99%
September 30, 1998	64.56%	64.32%
December 31, 1998	52.85%	not available
Average Ratio	60.42%	62.59%

LENDING IN THE ASSESSMENT AREA

A majority of loans are within the assessment area. A management analysis of all loans at November 30, 1998 revealed the majority of both the number and dollar amount of loans were within the bank's assessment area. This information is shown in Table 2.

Table 2

LOANS IN THE BANK'S ASSESSMENT AREA	INSIDE AREA	OUTSIDE AREA	TOTAL
Number of Loans	206	54	260
Percentage of Number of Loans	79%	21%	100%
Dollar Amount of Loans	\$6.1 Million	\$3.6 Million	\$9.7 Million
Percentage of Dollar Amount	63%	37%	100%

We confirmed the reasonableness of management's analysis while reviewing 1998 loan originations. Of the 68 consumer loans originated in 1998, 82% of the number of loans were within the assessment area. All home improvement loans granted in 1998 were within the assessment area. In addition, a review of 1998 commercial loan originations revealed 84% of the number of loans were within the assessment area. The bank did not originate any home purchase loans in 1998. In addition, discussions with management revealed that loans were often made to borrowers who worked in Katy but did not live in the assessment area. Also, management actively solicits loans to employees of the bank's commercial customers in the assessment area. Many of these employees do not live in the assessment area.

Community contact during the examination revealed the bank is active in the community in both lending and service. Our contact did not disclose any unaddressed credit needs.

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

Overall, the bank's level of lending to individuals of different income levels and businesses of different sizes is reasonable. Loan applications are solicited from all income levels. Income information for most borrowers is in the bank's credit files. Information concerning the bank's lending to borrowers originated in 1998 where income was available is contained in Table 3. The bank's level of lending to low- and moderate-income borrowers exceeds the area demographic characteristics.

The commercial loan sample we reviewed was based on originations in 1998 and did not include renewals or loans to customers with loans prior to 1998. All commercial loans

were less than \$1 million in amount.

Table 3

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	7%		11%		20%		62%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
Consumer	17	28%	16	27%	13	22%	14	23%	60	100%
Home Improvement	2	33%	1	17%	2	33%	1	17%	6	100%
Total	19	29%	17	25%	15	23%	15	23%	66	100%
Revenue Ranges (M is thousands)	< \$100M		\$100M - \$500M		\$500M - \$1MM		> \$1MM			
Commercial	3	16%	3	16%	7	37%	6	31%	19	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

Since the bank’s assessment area does not include low- and moderate-income areas, an analysis of the geographic distribution of loans was not performed. Results of a geographic distribution of loans would not be meaningful. Although the bank does not have any low- and moderate-income census tracts in its assessment area, the bank’s commitment to lending to borrowers of low- and moderate-income is not a concern. The previous analysis of lending to borrowers of different income levels demonstrates a commitment to lending to low- and moderate-income borrowers

RESPONSE TO COMPLAINTS

The bank's process for responding to complaints is satisfactory. During this evaluation period, Katy Bank, N. A. did not receive any complaints concerning the bank's CRA performance. However, management has a satisfactory process to handle any complaints.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

A Fair Lending review was performed at the same time as this CRA examination. Katy Bank, N. A. is in compliance with the provisions of the anti-discrimination laws and regulations. In addition, we did not find any evidence of practices intended to discourage potential borrowers from applying for credit at this bank.

OTHER CONSIDERATIONS

Katy Bank, N. A. and its officers participate in projects designed to contribute to the general welfare of the community. The bank makes contributions to local charities and organizations in the normal course of business. Also, a \$400 thousand loan participation in a \$50 million student loan credit facility was recently purchased by the bank.