



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 09, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Unity National Bank of Houston
Charter Number 21008**

**2602 Blodgett Street
Houston, TX 77004**

**Comptroller of the Currency
Houston East Field Office
1301 McKinney Street, Suite 3750
Houston, Texas 77010**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Unity National Bank (Unity NB) satisfactorily meets the credit needs of its assessment area, including low- and moderate-income individuals in areas consistent with its resources and capabilities. This rating is supported by the following:

- The loan-to-deposit ratio is above average.
- A reasonable penetration of loans and other lending-related activities are in the bank's assessment area.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

DESCRIPTION OF INSTITUTION

Unity National Bank (Unity NB) is headquartered in Houston, Harris County, Texas. Unity NB is the only independently African-American owned and operated bank in Texas. As of June 30, 2001, Unity NB had assets \$56 million, and net loans-to-total assets of 76%. Unity NB is well capitalized and received a Satisfactory rating at the last CRA examination performed August 20, 1996. Unity has no legal or financial impediments that prevent their efforts to help meet the credit needs of the assessment area.

Unity NB serves the community from three locations. Unity NB's main bank location and a branch, located in a national chain grocery store, are both situated in the heart of the community known as the Third Ward. The other branch is located in Missouri City, Texas, a suburb of Houston.

Unity NB's primary target market is in an area comprised of 22 contiguous census tracts, all of which meet various distress criteria. In January 2000, Unity NB was certified by the U.S. Department of Treasury as a Community Development Financial Institution (CDFI). Consistent with this certification, Unity NB's primary mission is to promote community development. Unity has a strong presence in the community by funding numerous community development projects. Unity NB is also a certified Small Business Administration (SBA) lender and is certified as a Minority/Disadvantaged Business Enterprise.

Unity NB is a full service institution offering various commercial and retail banking services. The Missouri City branch location is full service, including drive-up service, and a proprietary automated teller machine (ATM). The store branch has limited banking services. Unity NB's primary product lines are commercial loans, residential real estate loans, and consumer loans. The distribution of the bank's loan portfolio as of June 30, 2001 is detailed in Table 1:

Table 1

Loan Category	\$ (000)	%
Commercial Real Estate Loans	\$10,016	30%
Residential Real Estate Loans	\$9,654	29%
Consumer Loans	\$7,237	22%
Commercial Loans	\$4,482	14%
Construction Loans	\$1,685	5%
Total	\$33,074	100%

DESCRIPTION OF UNITY NATIONAL BANK ASSESSMENT AREA

Unity NB's assessment area includes 26 census tracts for the Blodgett area (Houston) and 9 in Fort Bend (Missouri City). Both of these areas are part of the Houston Metropolitan Statistical Area (MSA). The combined census tracts for the Blodgett area are designated as (10) low, (12) moderate; (6) middle, and (7) upper and the census tracts for the Fort Bend area are designated as (0) low, (0) moderate, (4) middle, and (5) upper. The bank's assessment area complies with the legal requirements of the CRA and does not arbitrarily exclude low- or moderate-income areas.

Unity NB's primary target market is in an area comprised of 22 contiguous census tracts, all of which meets various distress criteria. Unity's primary market is an area in Houston, known as the Third Ward Community. The Third Ward Community is defined as an area bordered by Interstate Highway 45 to the North, Scott Street to the East, South MacGregor to the South, and Almeda Road to the West.

The majority of the residents in the community where the bank is located are African-Americans. Unity NB is strategically located near downtown Houston and the renowned Texas Medical Center. The University of Houston and Texas Southern University are both located within a one-mile radius of the Unity NB. Unemployment in the area has traditionally been high. The majority of the homeowners are senior citizens that have lived in the area for many years.

Information derived from the 1990 Census Bureau and 2001 Housing and Urban Development Agency (HUD) reports the updated 2001 median family income for the assessment area of \$58,500. Based on this data, low-income families comprise 45% of the assessment area, moderate-income 19%, middle-income 16%, and upper-income families comprise 19%. Thirty percent (30%) of the families are below poverty level. A summation of the assessment area demographics is detailed Table 2.

Table 2

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	17,726
Number of Households	31,686
<i>Geographies</i>	
Number of Census Tracts	26
% Low-Income Census Tracts	38%
% Moderate-Income Census Tracts	46%
% Middle-Income Census Tracts	8%
% Upper-Income Census Tracts	8%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	36,886\$
2001 HUD-Adjusted MFI	58,500\$
<i>Economic Indicators</i>	
Unemployment Rate	%
2001 Median Housing Value	\$54,248
Owner-occupied Housing Units	79%
% of Households Below Poverty Level	30%

Area economic condition in the local community, although improving, remain distressed. A large part of the market Unity NB serves has been under-served by other financial institutions in the past. Competition in the area is from the few branches of regional banks that are located throughout the community. Competition is also provided from several non-financial institutions, such as check-cashing facilities and payday loan centers.

One CRA-related community contact was made with a local businessman that is very knowledgeable of the economic and business development environment in the community. This contact indicated a the need for loans to small businesses and loans for housing. These are the same credit needs identified by the bank. Management has identified residential mortgages as a primary credit need within the assessment area. However, they noted that most of the available property is very expensive and a majority of the residents are low-income and senior citizens who do not borrow extensively. This has resulted in a low approval rate for residential mortgages in the assessment area. Unity NB conducts meetings with community leaders and organizations regularly to ensure ongoing communication and determine what the bank can do to meet credit needs. The community contact, as well as bank management, indicated that Unity NB has been able to meet some of these needs through its ongoing community development efforts and activities.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Unity NB's loan-to-deposit ratio is above average. The loan-to-deposit quarterly average was 65% from 1996 through June 2001. Unity NB's loan-to-deposit ratio as of the quarter ending June 30, 2001 was 77%. Table 2 illustrates the trend of Unity's loan-to-deposit ratio for the last five quarters.

Table 3

Date	Total Loans \$(000)	LTD Ratio
June 30, 2000	\$27,485	71%
September 30, 2000	\$28,867	74%
December 31, 2000	\$32,255	80%
March 31, 2001	\$33,020	82%
June 30, 2001	\$33,049	77%

Lending in the Assessment Area

A majority of loans and other lending-related activities are in the bank's assessment area. Unity NB's lending in the assessment meets the standard for satisfactory performance. We tested and verified management's conclusions on lending in the assessment by analyzing a sample of loans originated since the last CRA examination. As illustrated in Table 4, this analysis revealed that, 41% of the number and 34% of the dollar volume of loans originated are within the assessment area. A bank-prepared analysis, which included a larger sample population, indicated that 46% of the number and 51% of the dollar volume of loans were in the assessment area.

Table 4

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	19	40%	\$256	32%	28	60%	\$547	68%
Residential RE	8	33%	\$821	42%	16	67%	\$1,135	58%
Small Business	12	48%	\$724	28%	13	52%	\$1,826	72%
Total Reviewed	39	41%	\$1,801	34%	57	66%	\$3,508	66%

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, which meets the standard for satisfactory. We reviewed a sample of Unity NB's primary product lines consisting of residential, consumer, and business loans. The analysis reflected a level of lending to low- and moderate- income families, which was not in line with the area demographics for residential loans but was above-average in for consumer and business loans.

As illustrated in the Tables below, of the residential loans sampled, 25% of the number and 11% of the dollar volume were extended to low- or moderate-income borrowers. Of the consumer loans reviewed 68% of the number and 65% of the dollar volume were extended to low- and moderate-income borrowers. The sample of business loans reviewed found 92% of the number and 84 % of the dollar volume of loans were extended to businesses with gross revenues of less than \$1 million per year.

Table 5

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	45%		19%		16%		19%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0%	0%	25%	11%	13%	7%	62%	82%

Table 6

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	45%		17%		18%		20%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	42%	28%	26%	37%	11%	4%	21%	31%

Table 7

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	86%	9%
% of Bank Loans in AA #	92%	8%
% of Bank Loans in AA \$	84%	16%

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area and meets the standard for satisfactory performance. We performed an analysis of residential, consumer, and business loans originated from September 1996 through June 2001. The analysis reflects that residential real estate lending in low- and moderate-income tracts was below area demographics. However, consumer and business lending was in most tracts within the assessment area. The geographic distribution loans are reflected in the Tables below.

Table 8

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied ⁴	31%		53%		10%		6%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	12%	5%	13%	7%	25%	24%	50%	64%

Table 9

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Households ⁵	34%		46%		15%		6%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	16%	8%	21%	19%	42%	48%	21%	24%

Table 10

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses ⁶	31%		45%		7%		17%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	33%	26%	59%	58%	0%	0%	8%	7%

Qualified Investments and CD Services

Unity NB has provided and participated in numerous services and lending programs that serve to increase community development and redevelopment. Unity NB bank has originated loans to improve several churches; provided funding for other nonprofit organizations; and made several loans guaranteed by the Small Business Administration (SBA).

Specifically, Unity NB has formed partnerships and alliances to provide special services and activities to the community resulting in the following:

- Increased loans to minorities and women;
- Relationships with large corporations;
- Loans that resulted in small business ownership;
- Loans to two African-American churches in the area to promote the hiring of minorities;
- Subsidize daycare and transportation;
- Partnered with a church to provide affordable housing in the community;
- Large credit facility for lots to be purchased for building homes in the Third Ward community;
- Participation with the City of Houston in Section 108 home improvement loan program;
- Financed the opening of several small businesses; and
- Provided funding for the renovation of the facilities of a nonprofit organization whose mission is to address social problems that affect families in the community.

Responses to Complaints

Unity NB did not any CRA-related consumer complaints since the prior CRA examination dated August 20,1996. A process for handling complaints is in place.

Fair Lending Review

An analysis of public comments and consumer complaint information, Home Mortgage Disclosure Act (HMDA) data, small business and consumer lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed at the December 31, 1999 compliance examination.