

Public Disclosure

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Community Reinvestment Act Performance Evaluation

Woodforest National Bank
Charter Number: 16892

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Conroe, Texas 77305

Office of the Comptroller of the Currency

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NOTE: 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.

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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 CRA performance of **Woodforest National Bank**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **August 2, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. 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 by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable 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.

Full-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

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 statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

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

Limited-Scope 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, branch distribution).

Low-Income - Income levels that are less than 50% of the median family income.

Median Family Income (MFI) - The median income determined by the United States 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 Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders=equity, perpetual preferred shareholders=equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120% or more of the MFI.

Overall CRA Rating

Institution's CRA Rating: This institution is rated **A Satisfactory**

The following table indicates the performance level of **Woodforest National Bank (WNB)** with respect to the Lending, Investment, and Service Tests:

Performance Levels	Woodforest National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
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:

- < Lending volume is adequate. The bank's loan to deposit ratio of 54% as of June 30, 1999, is consistent with the ratio of similarly sized banks in Houston. Approximately 94% of the bank's loans are originated within its assessment area.
- < The overall geographic distribution of loans reflects reasonable penetration throughout the assessment areas, given its branch distribution and competition.
- < The distribution of borrowers, given the product lines offered by the bank, is reasonable among customers of different income levels, including low- and moderate-income borrowers, and small business customers. More than 80% of the reported small business loans are made to businesses with revenue of less than \$1 million, and more than 87% of small business loans are originated in amounts less than \$100 thousand.
- < WNB originated an adequate level (\$3.7 million) of community development loans in its assessment areas.

- < WNB makes some use of flexible lending programs, particularly government sponsored and guaranteed programs, to serve the credit needs of its assessment areas.
- < The bank has an adequate level (\$589 thousand) of qualified community development investments within its assessment area, which is considered a very high opportunity area.
- < Delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment areas, including low- and moderate-income geographies and individuals.
- < Services do not vary in a way that inconveniences any portion of the assessment area, including low- or moderate-income geographies or individuals. The bank offers extended business hours, including Sunday hours, in its full service branches in Wal-Marts and other stores.
- < The bank provides some community development services.

Description of Institution

Woodforest National Bank (WNB) operates 24 full service branches in Harris and Montgomery Counties in the Houston MSA. The asset size of the bank is \$618 million as of June 30, 1999, and Tier 1 Capital is \$35 million or 6.8% of assets.

WNB is a wholly-owned subsidiary of Woodforest Bancshares, Inc., a one bank holding company chartered in 1986, with less than \$600 million in total assets. The holding company sometimes trades other bank stock, and has in the past operated subsidiaries but has none at this time; the holding company conducts very little activity outside of WNB. On April 1, 1999, WNB acquired Highlands State Bank, a \$66 million institution with 3 branches in Harris County. The loans originated by Highlands State Bank in 1999 are included in this evaluation, but no other activity is included. No subsidiary activity impacted the bank's capacity for community reinvestment during the evaluation period.

The bank has an average loan-to-deposit ratio of 46.5% since the prior evaluation. The loan-to-deposit ratio is 53.7% as of June 30, 1999. These ratios are consistent with the ratios for similarly sized banks in the Houston area. WNB's primary local competitor in Montgomery County has the same loan-to-deposit ratio, and banks in Harris County have ratios slightly above that of WNB. The bank derives 50.6% of its deposits and 60.4% of its loans from Montgomery County, and derives 49.4% of its deposits and 39.6% of loans from Harris County.

Net loans comprised 49.7% of total assets as of June 30, 1999, and the amount of loans outstanding has doubled since the prior examination. The majority of these loans, or 71.4%, are secured by various types of real estate. One-to-four family residential real estate loans equal 17.8% of the bank's total loan portfolio, and consumer loans equal 5.1%. Commercial real estate represents 38%, and other commercial loans make up 21.9%, of the loan portfolio. More than 14% of the portfolio is construction loans. There are no legal or financial impediments to the bank meeting community needs under the CRA.

WNB focuses on small business and all forms of real estate lending. Bank management intends WNB to be the primary financial institution in Montgomery County, while maintaining a presence in fiercely competitive Harris County. WNB considers the Woodlands its home base today, and has constructed a large operating center in the area. This area is a growing, prosperous community in Montgomery County. Deposits received in Montgomery County have increased steadily over the past three years.

The OCC assigned WNB a rating of **Satisfactory** at the previous CRA evaluation dated September 11, 1997.

Scope of the Evaluation

Evaluation Period/Products Evaluated

Conclusions regarding the Lending Test are based on data collected for calendar years 1997 and 1998, and the first six months of 1999. The evaluation period of the Investment and Service Tests runs from September 12, 1997 through July 31, 1999, the period since the prior CRA evaluation. The evaluation of the bank's performance under the Lending Test includes HMDA-reportable, small business, and community development loans. WNB has chosen not to report its consumer loan originations. Small business loans are given the most weight in rating the bank's performance under the Lending Test.

The Investment Test conclusions are based on our evaluation of qualified community development investments and donations. Retail and commercial deposit products and services, loan products and services, and community development services are evaluated for the purpose of rating WNB's performance under the Service Test. Please refer to the table in Appendix A for more information.

Data Integrity

During our evaluation, we tested HMDA and small business loan data reported by WNB in 1997 and 1998, and the data collected through June 30, 1999. Material errors were noted in the collection and reporting of small business loan data. The bank erroneously reported numerous residential construction loans as small business loans in 1997 and 1998. Certain loans misreported in 1997 were excluded from that data for our analysis. The bank corrected much of the 1998 data prior to this evaluation, and the 1999 data was tested and errors corrected during the evaluation; the corrected data is presented here.

Selection of Areas for Full-Scope Review

The bank operates in only one assessment area (Houston) which received a full-scope review.

Ratings

The overall rating assigned WNB is based solely on results of the full-scope review of the bank's performance in the Houston assessment area.

Other

Twelve community organizations were contacted in the Houston MSA, including Harris and Montgomery Counties, to discuss community development and credit needs in these areas. The organizations contacted included City government offices, social service organizations, minority chambers of commerce, affordable housing groups, and small business development groups. The needs most often noted are affordable housing and small and micro business loan programs.

There is a very high level of community development opportunities in Houston. City government, city- and federally-funded non-profit organizations, and private groups are the primary vehicles for the provision of home ownership counseling, and construction and financing of affordable homes. The Small Business Administration (SBA) is very active in the area and assists many banks with small business loan programs, including WNB. Several areas of the City of Houston, particularly in the inner city, have been targeted by City government, Community Development Corporations, non-profit organizations, and other groups for community redevelopment and revitalization. The two groups contacted in Montgomery County noted that WNB is active in assisting their community development efforts.

Fair Lending Review

A sample of home purchase loans originated between July 1, 1998, and June 30, 1999, was selected and reviewed to test for compliance with antidiscrimination laws. Loans made to Hispanic applicants were compared to loans made to white applicants to ensure that similar interest rates and terms were offered each applicant regardless of national origin. No evidence of disparate treatment was noted. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. WNB has policies and procedures in place to prevent discriminatory 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 **Low Satisfactory** based on a full-scope review of its only assessment area, Houston. Refer to **Appendix C-Tables of Performance Data** for additional facts and data.

Lending Activity

Refer to Table 1 in Appendix C for the facts and data used to evaluate the bank's lending activity.

The bank's lending volume is adequate in the Houston assessment area. The loan-to-deposit ratio is 53.7% as of June 30, 1999. This ratio is consistent with the ratios of similarly sized banks in the Houston area. WNB originated approximately 94% of its loans within its assessment area. The bank ranks first in deposit market share (12.8%) in Montgomery County and has a rank of 27 (0.5% share) in Harris County as of June 30, 1998. The bank also made an adequate level of community development loans in both areas.

Loan market share data for 1998 is not yet available, and the market share data for 1997 is not meaningful. For HMDA and Small Farm Loans originated, WNB's volume is low and market share is not measurable because of significant competition, particularly in Harris County, and because HMDA and farm lending are not primary lines of business for the bank. Small business loans are accorded the most weight in arriving at a rating of the bank's performance under the Lending Test because commercial lending is a primary line of business for WNB. Market share data was not evaluated for Small Business Loans due to errors noted in the bank's 1997 data which were not corrected prior to compilation of the market share data.

Distribution of Loans by Income Level of the Geography

Home Mortgage Loans

Refer to Tables 2, 3 and 4 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations.

The bank's overall geographic distribution for home mortgage loans is fair. WNB's numbers are below the comparative demographic in low-income tracts, and substantially meets the demographic in moderate-income tracts. The distribution of home purchase loans does not meet the comparative demographics in either low- or moderate-income tracts. However, the lesser performance in low-income tracts and in home purchase lending was not given significant weight in the overall analysis; home mortgage lending is not a primary focus of the bank. Also, there is only one low-income census tract in Montgomery County, which the bank successfully serves, and WNB's branches in Harris County are not located in or proximate to low-income tracts in Harris County. Refer to Appendix B of the PE for additional demographic information.

Small Business Loans

Refer to Table 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's small business loan originations.

The geographic distribution of WNB's small business loans in its assessment area is reasonable. The distribution substantially meets the comparative demographic in moderate-income tracts, but is below the comparative demographic for low-income census tracts. Again, location of the bank's branches affects the bank's ability to generate loans in low-income tracts in Harris County. The loans WNB originated in low-income census tracts are mostly in Montgomery County.

Small Farm Loans

Refer to Table 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's small farm loan originations.

Only two farm loans were originated during the evaluation period, both in the assessment area. Farm lending does not represent a significant portion of the bank's portfolio and is not a major component of its lending strategy. No weight was given to the distribution of small farm loans, and the data is presented in Table 6 for informational purposes only.

Lending Gap Analysis

Analysis of home mortgage and small business lending activity in the bank's assessment area revealed no unexplained conspicuous gaps in lending. WNB's branches are located throughout Montgomery County, and in the northern and eastern portions of Harris County. No branches are located in a geographic band crossing the southern and southwestern sections of Harris County. The branch

distribution is very consistent with the bank's loan and deposit distributions. The majority of low-income census tracts are located in central (downtown Houston) and southern Harris County, some distance from WNB branches. Also, these sections of Harris County are well banked. There is only one low-income census tract in Montgomery County, adjacent to a moderate-income tract in which the bank operates a branch. Therefore, the overall geographic distribution of the bank's loans, and the bank's low penetration of low-income census tracts, is reasonable.

In/Out Ratio

The bank's distribution of loans inside and outside of its assessment area is excellent. A very substantial majority (94%) of all loans reported by WNB were made within its assessment area. By loan type, 88% of home mortgage loans and 96% of small business loans were made in the assessment area.

Distribution of Loans by Income Level of the Borrower

Home Mortgage Loans

Refer to Tables 7, 8 and 9 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations. The bank's distribution of home mortgage loans to borrowers of different income levels is fair. WNB's distribution of mortgage loans to low-income borrowers does not meet the comparative demographic in its assessment area. The distribution of home purchase loans made by the bank to moderate-income borrowers exceeds the comparative demographic, and the distribution of home improvement loans to moderate-income borrowers is similar to the demographic. Home mortgage refinance loans are primarily made to upper-income borrowers, however, the bank originated a very low volume of such loans. Because HMDA lending is not a primary focus of the bank, the distribution of these loans among borrowers of different income levels did not have a significant impact on the rating assigned the Lending Test.

Small Business Loans

Refer to Table 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's small business loan originations. The bank's distribution of small business loans to businesses of different sizes is reasonable. The distribution of small business loans to businesses with revenues less than

\$1 million substantially meets the comparative demographics in its assessment area. A very substantial majority (87%) of the bank's small business loans were for amounts less than \$100,000.

Small Farm Loans

Refer to Table 11 in the Appendix C for the facts and data used to evaluate the borrower distribution of the bank's small farm loan originations. Only two loans were originated during the review period, both to small farms, and the information is presented for informational purposes only.

Community Development Lending

Refer to Table 1 in Appendix C for the data used to evaluate the bank's level of community development (CD) lending.

The dollar volume of CD loans originated by WNB during the evaluation period is adequate. The bank originated eight CD loans totaling \$3.7 million since the last CRA examination. The majority of these loans were for the purpose of affordable housing, specifically multi-family housing (2.5 million). This level of CD lending shows responsiveness to the area need for affordable housing identified through community contacts. One of the organizations that WNB supports through CD lending has received national recognition from the U.S. Department of Housing and Urban Development for their innovative approach to affordable housing.

The remaining loans were for various CD purposes including the provision of educational and subsidized day care facilities for low- and moderate-income families. WNB participated with other banks in financing the construction and term loan to a large Hispanic community group which focuses on poverty issues, to build a charter school for disadvantaged youth. This school construction loan qualifies as a community development project because of the benefits to be provided children from low- and moderate-income families. The financing of a day care facility was qualified because the facility will be run primarily on government subsidies received for children of low-income parents.

Product Innovation and Flexibility

WNB offers products through government loan programs which utilize government-guarantees and/or flexible underwriting criteria and loan terms. Products in this category include student loans through the Student Loan Marketing Association

(Sallie Mae), and mortgage loan products through the Federal Housing Administration (FHA), Farmers Home Administration (FmHA), the Veterans Administration (VA), Federal National Mortgage Association (Fannie Mae), and Federal Home Mortgage Corporation (Freddie Mac).

The largest volume of these types of loans is originated through Sallie Mae. In 1997 and 1998, the bank lent \$13.4 million to 3033 students. In the first half of 1999, the bank made loans to 1569 students totaling \$4 million. The bank originated three loans totaling \$223 thousand under the Fannie Mae Community Homebuyer Program which targets low- or moderate-income, first time homebuyers. Total volume of lending under the other loan programs is not available.

A senior bank officer serves as the primary leader of a bank consortium supporting the Conroe downtown revitalization effort. The consortium has committed \$1 million in low interest loans to businesses for rehabilitation of dilapidated buildings in the one low-income census tract and the adjacent moderate-income tract. The low interest rate offered on these loans for a community development purpose, coupled with customized underwriting of each proposal, is considered flexible.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Investment Test is rated **ALow Satisfactory@**. Based on a full-scope review, WNB's performance in the Houston assessment area is adequate based on the size and capacity of the bank. Please see Table 12 in Appendix C for the data used to evaluate the bank's level of qualified investments.

The bank has made twelve investments during the evaluation period for a dollar total of \$588,900 supporting various community development purposes including:

- C Deposits in minority-owned banks serving primarily low- and moderate-income persons or geographies. One depository institution, in which the bank has invested \$500 thousand, originates a large volume of CD loans and provides mortgage financing through a variety of affordable housing products and programs.
- C Credit counseling for low- and moderate-income persons.
- C Educational and social programs designed for children of low- and moderate-income families.

C Various social services for low- and moderate-income persons.

WNB was previously evaluated under small-bank guidelines which do not require community development investments. WNB made donations and investments continuously throughout this evaluation period but has not yet committed to any innovative or complex investments. Bank management continues to explore opportunities.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

Retail Banking Services

The bank's performance under the Service Test is rated **Low Satisfactory** based on a full-scope review of WNB's performance in the Houston assessment area.

Refer to Table 13 in Appendix C for the data used to evaluate the distribution of the bank's branch and ATM delivery system. Some locations have more than one ATM, however, Table 13 reflects only locations, not number of machines. Eight locations have more than one ATM machine and the bank operates a mobile ATM not reflected in the numbers.

WNB has 24 full-service offices, 35 ATM locations, one mobile ATM and one stand-alone drive in facility. Thirteen offices and 20 ATMs are located in Harris County, with 11 offices and 17 ATMS located in Montgomery County. The traveling ATM is used primarily in Montgomery County. The ATMs are able to accommodate Spanish speaking customers by offering Spanish screens along with the English screens.

The bank's distribution of branches and ATMs are reasonable given the very large assessment area and level of competition, particularly in Harris County. Approximately 9% of the population and no branches are located in the low-income census tracts, and 28% of the population and 25% of the branches are in moderate-income tracts. Additionally, 22% of the bank's ATMs are located in moderate-income tracts. There are no low-income tracts in the area of east Harris County, also known as Woodforest, where the bank was chartered and maintains a major presence.

In Montgomery County, there is only one low-income census tract. WNB's downtown Conroe branch and an ATM are located in a moderate income tract adjacent to that low income tract. Of the 17 Montgomery County ATM locations,

one is in a Medical Center, one is in the county tax office and one is in the subcourthouse. The ATM located in the county tax office was moved from the Conroe courthouse across the street (which is in the low income tract) six months ago upon a request from government officials because of a higher traffic flow in the tax office. Six of the Harris County ATM locations are at local universities.

Since the previous evaluation dated September 12, 1997, WNB has opened seven offices in Harris County and five offices in Montgomery County. Two offices are in moderate income tracts, six offices are in middle income tracts and three are in upper income tracts. Each new office has at least one ATM. No branches were closed during the review period.

Hours of operation are the same at all WNB branch locations, with the exception of the in-store branches. The four Wal-Mart branches, which are evenly distributed in moderate- and upper-income geographies, have extended hours (8:00 a.m.- 8:00 p.m. Monday through Saturday; 12 noon - 6:00 p.m. Sunday), as do the two Kroger branches in upper-income census tracts (9:00 a.m.- 7:00 p.m. Monday through Saturday; 12 noon - 5:00 p.m. Sunday), and the Super K-Mart branch in an upper-income tract (9:00 a.m.- 7:00 p.m. Monday through Saturday; 12 noon - 5:00 p.m. Sunday). Although these branches are predominantly in upper-income areas, the customers of the stores represent all income levels. These branch hours are longer than the hours set by the bank's competitors. The bank has also extended its processing cut off time to 6:00 p.m. Monday through Friday to better serve its working customers.

The bank's basic banking products are simple and easy to understand, and are flexible to meet the differing needs of customers. A low cost Budget Checking account can be opened with \$25 and is an attractive option for those with limited monetary resources and low activity levels. All other accounts can be opened with \$100. Service charges, fees and minimum opening amounts are reasonable. There is no minimum loan amount.

In markets where the bank serves Spanish-speaking customers, efforts are made to ensure Spanish speaking employees are available. The bank employs ten bilingual employees. The bank offers 24 hour access to account information through the automated voice response system and through the bank's website on the Internet. The automated voice response system offers Spanish and English options. The bank's website offers access to general bank information, locations, phone numbers, products, services, account information and on-line banking. The bank is currently revising its website to include messages in Spanish. We could not place significant weight on these alternative delivery systems when drawing

CRA performance conclusions because no data was available on usage of the systems.

Community Development Services

WNB has provided some community development services in its assessment area. Examples of qualified services include:

- C A senior bank officer serves as the primary leader of a bank consortium supporting the Conroe downtown revitalization effort. The consortium has committed \$1 million in low interest loans to businesses for rehabilitation of dilapidated buildings in the one low-income census tract in Montgomery County and the moderate-income tract adjacent to it.
- C WNB co-sponsored free financial education seminars for low- and moderate-income persons. The seminars covered general credit and basic banking services, as well as small business, student, mortgage and home equity loans. Thirteen bank employees participated in the seminars.
- C A senior bank officer serves on the Board of the Houston Credit Coalition, a non-profit agency providing free credit and banking education services targeted to low- and moderate-income persons.

In addition, the bank offers banking products which promote community development. Small businesses benefit from WNB's merchant credit card program that is specifically targeted to very small, start up businesses. The businesses associated with the bank's program typically do not qualify for direct VISA/MasterCard programs and would be at a competitive disadvantage without the alternative offered by the bank.

The bank also has a program for Wal-Mart employees. Wal-Mart employees are offered free checking accounts with no minimum balance requirements as long as they remain employees. The majority of the Wal-Mart employees are hourly workers and are predominately low- and moderate-income.

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 nonmetropolitan areas that received comprehensive examination review (designated by the term **AFull-Scope@**) and those that received a less comprehensive review (designated by the term **ALimited-Scope@**).

Time Period Reviewed	Lending Test: January 1, 1997 to June 30, 1999 Investment Test: September 12, 1997 to July 31, 1999 Service Test: September 12, 1997 to July 31, 1999	
Financial Institution	Products Reviewed	
Woodforest National Bank (WNB) Houston, Texas	Home Purchase and Home Refinance and Home Improvement Loans originated in 1997, 1998, and year-to-date 1999 Small Business Loans in 1997, 1998, and year-to-date 1999. Community Development Loans, Investments, and Services. Retail products and services offered.	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None.		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Harris and Montgomery Counties in the Houston MSA	Full Scope	does not include all of MSA #3360

Appendix B: Market Profiles for Full-Scope Areas

HOUSTON

Demographic Information for Full-Scope Area: Houston						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	621	11.92	30.27	30.11	25.44	2.25
Population by Geography	3,000,400	8.59	28.37	33.20	29.83	0.00
Owner-Occupied Housing by Geography	579,621	5.35	22.52	33.65	38.48	0.00
Businesses by Geography	133,282	7.00	28.61	29.77	34.32	0.25
Farms by Geography	1,812	3.81	22.35	37.75	36.09	0.00
Family Distribution by Income Level	759,319	23.00	16.85	20.27	39.87	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	302,626	15.07	40.42	31.38	13.13	0.00
Median Family Income		Median Housing Value				= \$75,121
HUD Adjusted Median Family Income for 1998	= \$39,436	Unemployment Rate (1998)				= 3.8%*
Households Below the Poverty Level	= 13.58%					

Source: 1990 U.S. Census and 1998 HUD updated MFI.

* Source: Texas Department of Labor

WNB operates in Harris and Montgomery Counties within the Houston MSA. Harris is the most populated county of the MSA, and contains the City of Houston. Montgomery County is located to the north of, and is contiguous to, Harris County.

Four other counties are included in the MSA, but are not part of the bank's assessment area; the bank has no branches and does virtually no business in these counties. The defined assessment area complies with the requirements of the CRA.

Major competitors in the assessment area include Chase Bank of Texas, Southwest Bank of Texas, Bank of America, Bank One Texas, Wells Fargo Bank, and Bank United, as well as numerous other commercial and savings banks. Houston is the fourth largest municipality in the country, and the Houston metropolitan area is among the ten largest. The local economy is historically based upon petrochemical and shipping endeavors, and those continue to be extremely important. The Houston economy is currently robust and the area continues to grow rapidly. Montgomery County, which includes a popular

community known as the Woodlands, has benefited from recent growth. Every major bank in the Houston market is represented in this county, and competition is fierce, particularly for loans.

Appendix C: Tables of Performance Data

Content of Standardized Tables

The tables cover the entire CRA evaluation period. References to the **Abank@** 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; market rank is based on the number of loans made by the bank as compared to all other lenders in the MSA/assessment area; and market share is the number of loans originated by the bank as a percentage of the aggregate number of reportable loans originated by all lenders in the MSA/assessment area. The following is a listing and brief description of the tables included in each set:

Table 1. Lending Volume - Presents the number and dollar amount of reportable loans originated by the bank over the evaluation period by MSA/assessment area.

Table 2. Geographic Distribution of HMDA Home Purchase Loan Originations - Compares the percentage distribution of the number of loans originated 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 rank and market share information based on the most recent aggregate market data available.

Table 3. Geographic Distribution of HMDA Home Improvement Loan Originations - See Table 2.

Table 4. Geographic Distribution of HMDA Refinance Loan Originations - See Table 2.

Table 5. Geographic Distribution of Small Business Loan Originations - The percentage distribution of the number of small loans (< \$1 million) to businesses originated 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 rank and market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Farm Loan Originations** - The percentage distribution of the number of small loans (< \$500,000) to farms originated 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 rank and market share information based on the most recent aggregate market data available.
- Table 7. Borrower Distribution of HMDA Home Purchase Loan Originations** - Compares the percentage distribution of the number of loans originated by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 8. Borrower Distribution of HMDA Home Improvement Loan Originations** - See Table 7.
- Table 9. Borrower Distribution of HMDA Refinance Loan Originations** - See Table 7.
- Table 10. Borrower Distribution of Small Business Loan Originations** - Compares the percentage distribution of the number of small loans (< \$1 million) originated 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. The table also presents the percentage distribution of the number of loans originated 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 11. Borrower Distribution of Small Farm Loan Originations** - Compares the percentage distribution of the number of small loans (< \$500 thousand) originated 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. The table also presents the percentage distribution of the number of loans originated 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 12. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/assessment area.

Table 13. Distribution of Branch and ATM Delivery System - Compares the percentage distribution of the number of the bank's retail branches and ATMs in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography.

Table 14. Geographic and Borrower Distribution of Consumer Loan Originations (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 the population 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 MSA/assessment area.

Table 1. Lending Volume

LENDING VOLUME													State: Texas	Evaluation Period: January 1, 1997 TO June 30, 1999
MSA/Assessment Area:	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farm		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area		
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)			
Full-Scope:														
Houston	100.0%	538	\$37,284	1,429	\$76,901	2	\$233	8	\$3,734	1,977	\$118,152	93.96%		
Limited-Scope: None														

Table 2. Geographic Distribution of Home Purchase Loan Originations

Geographic Distribution: HOME PURCHASE																	State: Texas	Evaluation Period: January 1, 1997 TO June 30, 1999
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans			
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	High	U	#	% of Total		
Full-Scope:																		
Houston	5%	1%	23%	16%	34%	38%	38%	45%	N/A	N/A	N/A	N/A	N/A	N/A	364	86%		
Limited-Scope: None																		

(*) The bank has no measurable market share based on 1997 Aggregate HMDA Data.

Table 3. Geographic Distribution of Home Improvement Loan Originations

Geographic Distribution: HOME IMPROVEMENT		State: Texas		Evaluation Period: January 1, 1997 TO June 30, 1999													
Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans		
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total	
Scope:																	
on	5%	0%	23%	19%	34%	37%	38%	43%	N/A	N/A	N/A	N/A	N/A	N/A	125	98%	
nd-Scope:	None																

(*) The bank has no measurable market share based on 1997 Aggregate HMDA Data.

Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations

Geographic Distribution: HOME MORTGAGE REFINANCE		State: Texas		Evaluation Period: January 1, 1997 TO December 31, 1998													
Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography**					Total Home Mortgage Refinance Loans		
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total	
Scope:																	
on	5%	0%	23%	21%	34%	36%	38%	42%	N/A	N/A	N/A	N/A	N/A	N/A	35	83%	
nd-Scope:	None																

Charter Number: **16892**

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(*) The bank has no measurable market share based on 1997 Aggregate HMDA Data.

Table 5. Geographic Distribution of Small Business Loan Originations

Geographic Distribution: SMALL BUSINESS		State: Texas				Evaluation Period: January 1, 1997 TO December 31, 1998										
Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans	
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Scope:																
Origin	7%	2%	29%	28%	30%	39%	34%	31%	N/A	N/A	N/A	N/A	N/A	N/A	1,429	96%
End-Scope:	None															

(*) Due to reporting errors in the bank's 1997 CRA data, market data was not used for this evaluation.

Table 6. Geographic Distribution of Small Farm Loan Originations

Geographic Distribution: SMALL FARM		State: Texas				Evaluation Period: January 1, 1997 TO December 31, 1998										
Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans	
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Scope:																
Origin	4%	0%	22%	100%	38%	100%	36%	0%	N/A	N/A	N/A	N/A	N/A	N/A	2	100%
End-Scope:	None															

(*) The bank has no measurable market share based on 1997 Aggregate Small Farm Data.

Table 7. Borrower Distribution of Home Purchase Loan Originations

Borrower Distribution: HMDA HOME PURCHASE		State: Texas				Evaluation Period: January 1, 1997 TO December 31, 1998											
Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Purchase Loans		
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total	
Scope:																	
Origin	23%	9%	17%	20%	20%	25%	40%	46%	N/A	N/A	N/A	N/A	N/A	N/A	359	86%	
End-Of-Period Scope:	None																

(*) As a percentage of loans with borrower income information available. No information was available for 1.6% of loans originated by BANK.

(**) The bank has no measurable market share based on 1997 Aggregate HMDA Data.

Table 8. Borrower Distribution of Home Improvement Loan Originations

Borrower Distribution: HOME IMPROVEMENT		State: Texas				Evaluation Period: January 1, 1997 TO December 31, 1998											
Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Improvement Loans		
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total	
Scope:																	
Origin	23%	4%	17%	14%	20%	19%	40%	63%	N/A	N/A	N/A	N/A	N/A	N/A	125	98%	
End-Of-Period Scope:	None																

(*) As a percentage of loans with borrower income information available. No information was available for 4% of loans originated by BANK.

Charter Number: **16892**

(**) The bank has no measurable market share based on 1997 Aggregate HMDA Data.

Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations

Borrower Distribution: HOME MORTGAGE REFINANCE		State: Texas		Evaluation Period: January 1, 1997 to December 31, 1998												
Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank**	Market Share by Borrower Income**					Total Home Mortgage Refinance Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Scope:																
on	23%	6%	17%	9%	20%	27%	40%	58%	N/A	N/A	N/A	N/A	N/A	N/A	33	92%
nd-Scope:	None															

(*) As a percentage of loans with borrower income information available. No information was available for 0.77% of loans originated by BANK.

(**) The bank has no measurable market share based on 1997 Aggregate HMDA Data.

Table 10. Borrower Distribution of Small Business Loan Originations

Borrower Distribution: SMALL BUSINESS		State: Texas		Evaluation Period: January 1, 1997 TO December 31, 1998								
Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share***		Total Small Business Loans			
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size	
Scope:												
on	88%	80%	N/A	87%	9%	4%	N/A	N/A	1,420	96%	\$53,692	
nd-Scope:	None											

(*) As a percentage of businesses with known revenues.

(**) As a percentage of loans with revenue information available. No information was available for .54% of loans originated by BANK.
(***) Due to reporting errors in the bank's 1997 CRA data, market data was not used for this evaluation.

Table 11. Borrower Distribution of Small Farm Loan Originations

Borrower Distribution: SMALL FARM State: Texas Evaluation Period: January 1, 1997 TO December 31, 1998											
Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share***		Total Small Farm Loans		
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Scope:											
on Assessment Area	97%	100%	N/A	1%	1%	0%	N/A	N/A	2	100%	\$116,500
Limited-Scope:	None										

(*) As a percentage of farms with known revenues.

(**) As a percentage of loans with revenue information available. Revenue information was available for all small farm loans originated by BANK.

(***) The bank has no measurable market share based on 1997 Aggregate Small Farm data.

Table 12. Qualified Investments

QUALIFIED INVESTMENTS State: Texas Evaluation Period: SEPTEMBER 12, 1997 TO JULY 31, 1999										
MSA/Assessment Areas:	Prior Period Investment			Current Period Investment			Total Investments			
		\$			\$					
Full-Scope:										
Houston	0	0	0%	12	\$589	100%	12	\$589	100%	
Limited-Scope:	None									

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(*) **A**Prior Period Investments means investments made in a previous evaluation period that remain outstanding.

(**) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

Table 13. Distribution of Branch and ATM Delivery System

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM				State: TEXAS				Evaluation Period: SEPTEMBER 12, 1997 through JULY 31, 1999								
MSA/Assessment Area:	Deposits	Branches						ATMs				Population				
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies*				% of the Population with Each Geography		
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid
Full-Scope:																
Houston	100%	24	100%	0%	25%	42%	33%	35	100%	0%	22%	54%	24%	9%	28%	33%
Limited Scope: None																

(*) The bank has 1 mobile ATM which is not included in the numbers.