



Comptroller of the Currency
Administrator of National Banks

(LARGE BANK)

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Community Reinvestment Act Performance Evaluation

**BankTexas, N. A.
Charter Number: 14236**

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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.

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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 **BankTexas, N.A.**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **February 28, 1998**. 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, and not a strict legal definition.

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 safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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 or parishes, including large population centers and nearby communities that have a high degree of interaction.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage loan application activity. The reports include such data as applicant race, gender and income, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

Federal Home Loan Bank (FHLB) - The former regulator of savings and loan institutions now dedicated to providing funds and services to member financial institutions. It provides grants to certain organizations on application for affordable housing and community development.

Community Development Corporation (CDC) - An entity organized to provide affordable housing and other community development services to a designated area.

Automated Teller Machine (ATM) - A machine offering limited banking services including dispensing cash and accepting deposits or loan payments.

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 census tracts. The median income determined by the United States Department of Housing and Urban Development (HUD) annually is used to determine the income level category of individuals. The median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

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

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

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

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

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

The major factors which support this rating include:

- ▶ A good responsiveness to credit needs in its assessment areas given the bank’s resources.
- ▶ A substantial majority (84%) of direct consumer and small business loans originated within the assessment areas.
- ▶ A reasonable dispersion of consumer and small business loans throughout the assessment areas. Approximately 66% of direct consumer loans were made to low- and moderate-income individuals.
- ▶ A good level of community development lending (\$8 million), given the bank’s resources and opportunities available within the assessment areas.
- ▶ Reasonable access to delivery systems for all segments of the assessment areas through branch locations and telephone banking services.
- ▶ An adequate level of community development services provided.

The following table indicates the performance level of **BankTexas, N.A.**, with respect to the lending, investment, and service tests.

Performance Levels	BankTexas, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory			X
Needs to improve		X	
Substantial noncompliance			

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

Description of Institution

BankTexas, N.A. (BTX), with its main office in Houston, Texas, is wholly owned by Sundowner Corporation, a wholly owned subsidiary of First Banks America, Inc, which is 65% owned by First Banks, Inc., part of a \$4 billion multi-bank holding company with headquarters in Creve Couer, Missouri. As of December 31, 1997, BTX reported total assets of \$266 million, and an average aggregate loan to deposit ratio of approximately 72.6% since the previous CRA evaluation. Deposits from within the bank's assessment areas comprise 93% of total deposits as of February 28, 1998.

BTX operates in 2 assessment areas; the Houston assessment area consists of Harris County and the Dallas assessment area includes Dallas and Collin Counties. These areas comprise a large part, but not all, of the Houston and Dallas MSAs, which are discussed in detail later in this evaluation. As of February 28, 1998, approximately 54% of the bank's total deposits, in dollars, come from within the Houston assessment area, and 39% come from within the Dallas assessment area.

As of June 30, 1997, BTX had a market share of less than 1% of bank deposits and loans in the Houston and Dallas markets. The bank competes in heavily banked markets where several of the nation's largest banks maintain very large presences. Major competitors include Nations Bank, Chase Texas (formerly Texas Commerce Bank), Bank One, Wells Fargo National Bank, Compass Bank, Comerica, and Frost National Bank.

Although adequately capitalized, BTX was not profitable in the three years prior to 1996. The bank returned to profitability in mid-1996 through a strategy of decreasing its dependence on subprime indirect consumer loans and increasing its portfolio of direct commercial and consumer loans. There are currently no financial impediments which limit the bank's ability to help meet the credit needs of its assessment areas. The bank offers a full range of financial and credit services throughout its assessment areas. BTX operates three full-service branches in each assessment area.

As of December 31, 1997, various types of real estate loans constitute approximately 41% of the BTX loan portfolio, up from 36% in 1996, but the bank is not active in the owner-occupied residential mortgage market. BTX affiliate First Bank Mortgage originates residential mortgage loans in several areas of the United States, including Texas. The mortgage company now has an origination office located in each of the six BTX branches. Mortgage loans originated inside the bank's assessment areas are included but not emphasized in this evaluation.

Consumer lending makes up 37% of the portfolio, down from 52% in 1996. Total commercial loans more than doubled in the past year and now equal 22% of the portfolio. The increases in real estate and commercial loans, and the decrease in consumer loans, is the direct result of a change in lending focus from indirect consumer paper to residential interim construction and commercial lending.

BTX's CRA performance was last evaluated as of August 10, 1995. At that time the bank's overall level of performance was rated "Satisfactory".

Conclusions with Respect to Performance Tests

SCOPE OF REVIEW

This review covered the time period January 1, 1996, to December 31, 1997, for the Lending Test, and January 1, 1996, through February 28, 1998, for the Investment and Service Tests. Banks only began reporting originations of small business and farm loans by census tract on March 1, 1997. Banks are not required to collect and report data on consumer loan activity. However, BTX chose to collect and report data on its consumer loan activity. As of December 31, 1997, consumer loans amounted to 37% of the \$172 million loan portfolio.

Automobile loans held by BTX represent more than 74% of consumer loans, a majority of which are originated through dealer agreements with the bank and its affiliates in other states. BTX originated indirect motor vehicle loans totaling \$45.5 million in 1997 alone, and purchased more than \$14 million of these loans during the year. Because the nature of this line of business is such that the dealers attract business irrespective of the lender's locations or facilities, the automobile segment of the loan portfolio is excluded from this performance evaluation.

Excluding the motor vehicle loans, direct consumer loans comprise 27% of the 2,590 loans originated by the bank during the review period. Small business loans reported by the bank make up approximately 13% of loans originated in 1996 and 1997. Therefore, this review analyzes more than 40% of the number of non-motor vehicle loans originated by the bank during the review period.

HMDA related loans originated in the assessment areas by BTX nonlocal affiliate First Bank Mortgage are discussed in this evaluation but had little impact on the overall rating. Also, it should be noted that farm lending represents less than 1% of the total loan portfolio. The assessment areas are large urban centers. Therefore, emphasis is not placed on farm lending in this CRA evaluation.

LENDING TEST - ALL ASSESSMENT AREAS COMBINED

Lending Activity

Lending levels reflect a good responsiveness to credit needs in the BankTexas assessment areas. The bank's average loan-to-deposit ratio since the previous CRA examination equals 73%. This average is slightly better than the average of 71% for banks of similar size in the nation, during the same period. Also, a substantial majority of the bank's loans were originated within its assessment areas; 84% of the number and 74% of the dollar volume of originations were made within BTX assessment areas.

The bank's small business and direct consumer lending levels are reasonable when compared to available demographic data which shows the number of individuals and businesses located in low-, moderate-, middle-, and upper-income census tracts surrounding the bank's branches and within the bank's combined assessment areas. The bank lends to borrowers across all economic lines, and a majority of consumer loans are made to low- and moderate-income individuals.

Assessment Area Concentration

Direct Consumer Loans

BTX originated 698 consumer loans, excluding automobile loans, totaling nearly \$7.7 million during the review period. A very substantial majority of these loans were made within the bank's assessment areas. The following chart shows the number and dollar amount by loan type made within the assessment areas.

Volume of Direct Consumer Loan Originations in 1996 and 1997 Within the Assessment Areas						
Loan Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Other Secured Consumer Loans	176	\$3,503	162	92%	\$2,988	85%
Unsecured Consumer Loans	193	\$438	182	94%	\$405	92%
Total 1996	369	\$3,941	344	93%	\$3,393	86%
Other Secured Consumer Loans	164	\$3,306	154	94%	\$2,789	84%
Unsecured Consumer Loans	165	\$429	153	93%	\$396	92%
Total 1997	329	\$3,735	307	93%	\$3,185	85%
Grand Total	698	\$7,676	651	93%	\$6,578	86%

Source: Bank internal reports

Small Business and Farm Loans

BTX originated 406 small business and small farm loans totaling approximately \$74 million during the two year review period. Small business loans represent 18% of all commercial loans originated during the review period. A high percentage of these loans, both in number and dollar amount, were made in the assessment areas. The following table illustrates the number and dollar volume of small business and farm loans made inside of the assessment areas in 1996 and 1997.

Volume of Small Business and Small Farm Loan Originations in 1996 and 1997 Within the Assessment Areas						
Loan Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Small Business	131	\$25,410	125	95%	\$22,965	90%
Small Farm	3	\$29	3	100%	\$29	100%
Total 1996	134	\$25,439	128	96%	\$22,994	90%
Small Business	271	\$48,726	213	79%	\$35,097	72%
Small Farm	1	\$18	1	100%	\$18	100%
Total 1997	272	\$48,744	214	79%	\$35,115	72%
Grand Total	406	\$74,183	342	84%	\$58,109	78%

Source: Bank-prepared Small Business and Small Farm Data Collection Registers

Home Mortgage Loans

From January 1, 1996 through December 31, 1997, BTX affiliate First Bank Mortgage originated 124 mortgage related loans in Texas totaling more than \$10 million. A majority of home mortgage related loans in Texas are originated outside of the assessment areas, as illustrated in the table below.

Volume of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Areas						
	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
1996	54	\$4,329	17	31%	\$1,140	26%
1997	70	\$6,179	29	41%	\$2,667	43%
Total	124	\$10,508	46	37%	\$3,807	36%

Source: Bank affiliate FFIEC HMDA Loan Application Registers and Bank internal reports

The number and percentage of HMDA related loans funded inside of the bank's assessment areas increased significantly in 1997, but volume remains low. The

increase is attributed to the location of affiliated mortgage company offices in each of the BTX branches. Continued increases in the number and dollar amount of HMDA related loans is expected, however, bank focus is on commercial lending and real estate development. Please refer to the Community Development Lending section of this evaluation for information on bank efforts in providing for affordable housing and community development.

Geographic Distribution of Loans within the Assessment Area

Overall, the geographic distribution of loans originated by BTX during the review period is good. Consumer loans are particularly well distributed among different geographies, particularly low- and moderate-income census tracts. Competition among financial institutions in the bank's markets is aggressive, and the bank does not hold a measurable market share of loans. Also, BTX operates only three branches in each area. The bank has two branches in moderate-income census tracts, and one in a low-income tract. Internal bank reports suggest that the bank originated loans in 48% of the census tracts comprising the combined assessment areas. This is a good level of penetration based on the bank's resources and market competition. The bank does not arbitrarily exclude any geographies in its lending practices.

We reviewed the nature and location of census tracts where the bank did not originate loans and found that the vast majority of the tracts not served by the bank are distant from the branch locations and are served by a number of other financial institutions. Of the tracts near bank branches but not penetrated, one low-income tract and one moderate-income tract in Houston which border bank branches are park sites, therefore, no loans were made in these areas. A moderate income tract in Dallas which was not penetrated is close to the Dallas/Fort Worth Airport and is not developed.

Direct Consumer Loans

BTX originated loans in all types of census tracts during the review period. The geographic distribution of direct consumer loans originated during the review period is very good. Nearly half of these loans were made in low- and moderate-income census tracts, which exceeds the percentage of such tracts in the areas. The following chart on the next page details the geographic distribution of these loans.

Distribution of Direct Consumer Loan Originations in 1996 & 1997 Within the Combined Assessment Areas By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts*	129	12%	297	28%	313	30%	284	27%
Loan Product	#	%	#	%	#	%	#	%
Other Secured Loans	26	16%	60	37%	37	23%	39	24%
Unsecured Loans	32	18%	68	37%	32	18%	50	27%
Total 1996	58	17%	128	37%	69	20%	89	26%
Other Secured Loans	19	12%	41	27%	40	26%	54	35%
Unsecured Loans	21	14%	46	30%	35	23%	51	33%
Total 1997	40	13%	87	28%	75	24%	105	34%
Grand Total 1996+1997	98	15%	215	33%	144	22%	194	30%

Source: Bank internal reports

* Does not include 22 census tracts which are not designated by income category.

It is noted that the number of each type of loan made in low- and moderate-income census tracts declined in 1997. The total number of direct consumer loans also declined last year. Bank management stated the numbers reflect a decline in consumer loan applications resulting from lower loan demand in 1997. It is also noted that the bank has shifted its lending focus to commercial and real estate development loans.

Small Business and Farm Loans

The geographic distribution of small business loans reflects a reasonable dispersion throughout the assessment areas. The following chart shows the number of small business/farm loans originated within the assessment areas in 1996 and 1997. The chart on the next page also displays the number and percentage of businesses located in low, moderate, middle, and upper income census tracts.

Distribution of Small Business and Farm Loan Originations in 1996 & 1997 Within the Combined Assessment Areas By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts*	129	12%	297	28%	313	30%	284	27%
Number of Businesses	14,913	7%	64,137	29%	69,958	31%	75,935	34%
Number of Farms	115	4%	658	21%	1,150	37%	1,193	38%
Loan Product	#	%	#	%	#	%	#	%
Small Business	9	7%	31	25%	28	23%	56	45%
Small Farm	0	0%	1	33%	2	67%	0	0%
Total 1996	9	7%	32	25%	30	24%	56	44%
Small Business	9	4%	44	21%	72	34%	88	41%
Small Farm	0	0%	0	0%	1	100	0	0%
Total 1997	9	4%	44	21%	73	34%	88	41%
Grand Total	18	5%	76	22%	103	30%	144	42%

Source: Dun & Bradstreet Business Demographic Data and bank-prepared Small Business and Farm Loan Data Collection Register
 * Does not include 22 census tracts which are not designated by income category.

The number of business loans made in upper-income and middle-income census tracts is significantly higher than the number of loans made in low-income and moderate-income census tracts. However, given the high level of competition for loans in the areas and the bank's limited number of branches, the dispersion of loans is reasonable.

Please refer to the Community Development Lending section of this evaluation for information on the bank's community development loans.

Home Mortgage Loans

Although the number of home loan originations is small, the distribution shows a willingness to lend in all types of geographies in the assessment areas. The following chart shows residential lending patterns by the income level of the census tracts located within the assessment areas.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts*	129	13%	297	29%	313	31%	284	28%
Number of 1-4 Family Units (Owner Occupied)	49,317	5%	209,909	22%	333,647	34%	374,728	39%
Median Year Built of Housing	1960		1965		1973		1974	
	#	%	#	%	#	%	#	%
1996	2	12%	3	18%	4	24%	8	47%
1997	0	0%	13	45%	7	24%	9	31%
Total	2	4%	16	35%	11	24%	17	37%

Source: 1990 Census Data, U.S. Census Bureau and Bank affiliate HMDA Loan Application Registers

* Does not include 22 census tracts which are not designated by income category.

The bank's ability to serve the affordable housing needs of low-income borrowers is limited by its branch locations. Also, the affiliate mortgage company offices were not operational in all bank branches for the entire review period. Therefore, conclusions which can be drawn from analysis of home mortgage originations is limited to determining that BTX did not exclude any segments of its community.

Distribution by Borrowers' Income within the Assessment Area

BTX originates loans across all economic lines. Direct consumer loans make up 63% of the number of loans analyzed in this evaluation. Approximately 35% of these consumer loans were to low-income individuals, and another 24% were to moderate-income borrowers. These lending patterns indicate the bank has a very good record serving borrowers of all income levels in its community, particularly near its branches.

Direct Consumer Loans

BTX is very responsive to consumer credit needs within its assessment areas. The following chart on the next page shows the loans originated by BTX in 1996 and 1997 to borrowers of different income levels. For comparison, it also shows the distribution of families living in the assessment areas by income level.

Distribution of Direct Consumer Loan Originations in 1996 & 1997 Within the Combined Assessment Areas By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	275,416	22%	215,158	17%	259,661	21%	499,770	40%
Loan Product	#	%	#	%	#	%	#	%
Other Secured Loans	66	41%	31	19%	32	20%	31	19%
Unsecured Loans	53	29%	57	31%	32	18%	39	22%
Total 1996	119	35%	88	26%	64	19%	70	21%
Other Secured Loans	57	37%	32	21%	25	16%	39	25%
Unsecured Loans	48	33%	31	21%	27	19%	39	27%
Total 1997	105	35%	63	21%	52	17%	78	26%
Grand Total 1996+1997*	224	35%	151	24%	116	18%	148	23%

Source: 1990 Census, U.S. Census Bureau, and bank internal reports

* Does not include 13 loans to borrowers of unknown income.

More than half of the loans originated during the review period were to low- and moderate-income borrowers. This compares very favorably to the percentage of low- and moderate-income families in the areas, and demonstrates the bank's responsiveness to consumer credit needs within its assessment areas.

Small Business and Small Farm Loans

BTX is responsive to small business/farm credit needs within its assessment areas. The following chart on the next page shows the bank's willingness to make loans of varying sizes and to businesses of different revenue levels. The four farm loans are all under \$100,000 to farms with revenues less than \$500,000.

Distribution of Small Business/Farm Loan Originations in 1996 and 1997 Within the Assessment Areas By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	210	61%	\$9,838	17%	165	79%	\$8,702	88%
\$100,000 to \$250,000	62	18%	\$11,142	19%	30	48%	\$5,093	46%
\$250,000 to \$1,000,000	70	20%	\$37,129	64%	31	44%	\$17,195	46%
Totals	342	100%	\$58,109	100%	226	66%	\$30,990	53%
Distribution of Businesses in the Assessment Areas by Annual Revenues of the Business or Farm:			< 1 Million	72%	*As a percentage of loans of the size category			
			> 1 Million	10%				
			Unknown	18%				

Source: Dun & Bradstreet Business Demographic Data and bank-prepared Small Business and Farm Data Collection Registers

Given the aggressive competition for commercial loans in the assessment areas and the limited number of BTX branches, the bank's small business lending performance is good. As noted in the above chart, a majority of the number of small business loans have original loan amounts of \$100 thousand or less, and a high percentage of the number and dollar amount of loans under \$100 thousand were to small businesses with annual revenues of less than \$1 million.

Demographic data reveals that approximately 72% of the businesses located in the combined assessment areas have revenues of less than \$1 million. The bank's lending patterns are consistent with the number of small businesses located within the assessment areas when competitive factors are taken into account.

Home Mortgage Loans

BTX originates home related loans to individuals and families across economic lines. The following table reflects the distribution of HMDA reportable loans originated during the review period. For comparison, it also shows the distribution of families living in the assessment areas by income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Areas By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	275,416	22%	215,158	17%	259,661	21%	499,770	40%
Loan Product	#	%	#	%	#	%	#	%
1996	3	19%	5	31%	6	38%	2	13%
1997	5	17%	7	23%	6	20%	12	40%
Grand Total	8	17%	12	26%	12	26%	14	30%

Source: 1990 Census, U.S. Census Bureau, and bank HMDA Loan Application Registers

Although the number of HMDA related loans is small, the overall distribution of these loans basically reflect the income characteristics of the assessment areas. Similar to the consumer loan originations, HMDA related loans to moderate-income borrowers represent 26% of home loan volume, which compares very favorably to the percentage of moderate-income families in the areas. The distribution of loans to low-income borrowers compares less favorably to the demographics but is reasonable given the bank's limited branch network in these large markets. Also, using the most recent peer data from 1996, comparison of the percentages of loans originated by competing banks to low-income persons is not better than the percentage of BTX loans made to low-income borrowers, and the percentages of loans by other banks to moderate-income persons is less than that of BTX.

Community Development Lending

Overall, BTX has originated an excellent amount of community development loans based on competitive factors and the opportunities available within its assessment areas. Community development loans are those loans whose primary purpose meets the definition of community development lending contained in the CRA regulation and that have not been considered in the review of small business, small farm, home mortgage, or consumer loans.

BTX has made 6 community development loans totaling nearly \$8 million since the last CRA examination. The loans were for the purpose of providing affordable housing and economic revitalization of depressed geographies in both assessment areas. The major projects are:

Affordable Housing - The Community Housing Fund was chartered to provide tax exempt home remodeling and affordable housing construction in Dallas and Collin Counties. The bank is very active in this organization and has provided a \$750,000 line of credit which has funded \$500,000 for Community Housing to make numerous affordable home loans ranging from \$30,000 to \$50,000.

BTX has also granted a \$1,000,000 line of credit to a private contractor specializing in residential construction in Harris County. Half of the line is dedicated to funding affordable home construction. The single family homes built qualify for several local and Federal home buyer assistance programs. During the review period, the bank funded \$437,500 for the construction of 10 affordable homes under this line of credit.

Neighborhood Revitalization and Stabilization - BTX financed the acquisition and rehabilitation of three vacant or under occupied office buildings in an area targeted for redevelopment. In recent years, many businesses had moved from this low- and moderate-income area outside of downtown Houston, taking many jobs for area residents to the suburbs. The loans funded by the bank allow small businesses to hire residents and operate in the area with improved facilities and parking.

The bank also funded the construction of a hotel in this same area. The hotel is located in a moderate income census tract and intends to employ a number of people from the immediate area. The loans for these projects total \$6.6 million.

The bank participates in a number of community development loans originated by its affiliates or parent, however, these loans do not benefit the bank's assessment area, and are not discussed in detail here.

Product Innovation and Flexibility

Basic loan products offered by the bank meet the competition. However, the community development loans discussed above demonstrate the flexibility and creativity used by the bank to meet the needs of those commercial customers. Also, the bank is involved in certain programs which offer innovative or flexible products. A senior bank officer serves locally as an advisory director of the SBA. Bank personnel work closely with the Community Housing Fund of Dallas to assist and promote that organization's first time home buyer programs. Please refer to the Service Test section of this evaluation for discussion of the bank's efforts in this area.

INVESTMENT TEST

The bank's level of qualified community development grants and investments is inadequate for an institution of its size, in markets where opportunities for community development investments are abundant. Qualifying investments are investments, deposits, membership shares or grants that have as their primary purpose community development, as defined in the CRA regulation. Based on information provided by the bank, BTX made only eight qualifying community development investments, grants and in-kind contributions totaling \$46,734, shown below. The total represents only slightly more than 1% of 1997 net income and .1% of bank capital. The investments directly benefit the bank's assessment areas.

Types of Investments		
Type of Investment	Number	Amount
Equity Investments	2	\$35,000
Grants/Donations	5	6,734
In-kind Contributions	1	5,000
TOTAL INVESTMENTS	8	\$46,734

Prior to 1996, BTX was not profitable and management devoted its resources to reversing the negative financial trends. However, the bank was profitable in 1996, and again in 1997, the time period used for this evaluation. Numerous opportunities exist in Dallas, Collin and Harris Counties for profitable investments which meet community development needs. Management's efforts to increase the number and dollar amount invested in its assessment areas are evident and are expected to continue. Please refer to the sections of this evaluation detailing investment activities in each assessment area for details of bank efforts.

SERVICE TEST

Retail Banking Services

The quantity, quality and accessibility of the bank's service-delivery systems are satisfactory. The bank provides basic banking services through its branch and ATM network. There is no variance in services offered by office locations. All offices have drive-up and ATM facilities. Hours of operation vary slightly, with four of the six drive-up facilities open on Saturdays. Banking by telephone and ATMs are accessible 24 hours per day.

No portions of the assessment areas are inconvenienced. BTX operates three branches in Harris County, the largest county in the Houston MSA. One of these branches is in a low-income census tract, one in a moderate-income tract, and one in an upper-income tract. The bank also operates two branches in Dallas County, and one branch and one walk-up ATM in McKinney, Texas, which is in Collin County. Dallas and Collin Counties are in the Dallas MSA. The McKinney branch and one branch in Dallas County are in upper-income census tracts, and the other Dallas County branch is in a moderate-income tract. No offices were opened or closed during the review period.

The current branch network cannot serve all geographies in the assessment areas, as the branches are clustered in one quadrant of each area. However, the customer base and geographies surrounding the branches vary by income level and the above loan analysis indicates a wide variety of customers are served, including small businesses and low- and moderate-income persons and geographies.

Loan and deposit account information as well as other services, are offered by telephone, including loan application processing, in English and Spanish. Bilingual services, particularly in Spanish, are readily available at all branches. In addition to free checking accounts for students, BTX offers the Group Banking/PayDay Club to businesses with 50 or more employees. Club membership allows for automatic deposit of employee payroll checks into a BTX checking account offering the following benefits:

- ▶ no maintenance fees;
- ▶ consumer loan rates of 1/2% below rates offered non-account holders;
- ▶ first 200 checks free;
- ▶ free safety deposit box for one year;
- ▶ free ATM services; and
- ▶ upon qualification, Visa/Mastercard account at a competitive rate with no annual fee.

Community Development Services

BTX provides an adequate level of services related to the provision of financial services with the primary purpose of community development in all of its assessment areas. These services include providing technical assistance on financial matters to nonprofit organizations that serve low- and moderate-income individuals and families, and to other groups which promote community revitalization and development, or affordable housing. BTX also provides financial planning and home ownership counseling to individuals and groups, primarily focusing on students and low- and moderate-income individuals. All of these services benefit the bank's assessment areas. Examples include:

Technical Assistance - BTX has provided technical expertise to secure \$250,000 in matching grants from the FHLB for the Community Housing Fund of Dallas which is engaged in affordable housing initiatives. The bank's senior loan officer serves as an advisory director of the Small Business Administration (SBA) in Houston. Another bank officer provides crucial assistance to Community Housing of Dallas by searching and negotiating for lots on which Community Housing can construct affordable housing. A Dallas bank officer provides financial and career planning and counseling to underprivileged youth through the Generations to Come program. He also serves on that organization's board.

Financial Education Programs - A bank officer serves as representative to the Houston Credit Coalition, an organization which provides home buyer training courses. Bank personnel in Houston also conduct basic banking and credit management seminars at a local high school in a moderate-income area. BTX employees routinely provide assistance to individuals, primarily non-English speaking and from low- and moderate income areas, on opening and maintaining bank accounts. In McKinney, the bank assists residents of the Samaritan Inn, a shelter for homeless and disadvantaged persons, by offering financial management education and services, including free checking accounts.

Revitalization or Stabilization Activities - In addition to providing the lead financing for revitalization projects in Houston, bank officers negotiated letters of credit to assist the developers. A branch manager serves on the Northside Community Alliance to promote business development and community efforts in this low-income Houston neighborhood in which a bank branch is located. The bank is a member of Houston's Hispanic Chamber of Commerce. In Dallas, bank efforts to assist the Community Housing Fund positively impact areas in need of revitalization or stabilization.

Fair Lending Review

During the CRA examination, procedures were performed to test for indications of illegally discriminatory lending practices. A sample of approximately 85 unsecured or cash-secured consumer loans was selected and reviewed for consistency of rates and terms, utilizing the gender of the borrowers as the targeted prohibited basis.

The results of this review show there is no reason to believe borrowers have been the victims of illegal discrimination on the basis of gender. The bank has established adequate policies, procedures and training programs to ensure compliance with antidiscrimination laws and regulations.

Assessment Areas

Description of the Institution's Operations in the Houston Assessment Area

BTX has designated Harris County as its assessment area (AA) within the Houston Metropolitan Statistical Area (MSA). The bank operates three full-service branches in Harris County, all in the south central/southwestern portion of the county. The Houston assessment area is very large and includes substantial geographies which cannot be reasonably served by the BTX branches.

Deposits originating from the Houston AA represent 54% of the bank's total deposits. BTX has less than 1% of the market share of deposits. Local banking competition is aggressive and includes affiliates of several large national banking companies, regional banks, numerous community banks, credit unions and non-bank financial service providers.

Description of the Houston Assessment Area

The Houston MSA includes five counties in addition to Harris County, with Harris County being the largest. The local economy has completely recovered from the oil recession of the 1980's, and is healthy and growing. Predominant industries include aerospace engineering, oil exploration and refining, and electronics. Houston is the world leader in the energy sector and boasts one of the nation's largest ports. In addition, it has an internationally recognized medical center and is the headquarters of the National Aeronautics and Space Administration (NASA). Major employers include NASA, the medical center, Compaq Computer, Brown & Root, and energy and chemical companies. Unemployment is in line with state and local averages.

The Houston AA includes 582 census tracts. Fourteen or 2% of the tracts are not classified by income category and are excluded from the following table on the next page. This table presents basic demographic data based on the income level of the census tracts and families within the Houston AA.

Demographic Information Houston Assessment Area (Harris County)										
Income Category	By Income Level of Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	73	13%	255,627	9%	9,056	7%	30,757	6%	164,156	23%
Moderate	179	31%	809,142	29%	36,416	29%	120,898	23%	119,338	17%
Middle	169	29%	911,859	32%	37,126	29%	172,214	32%	142,724	20%
Upper	147	25%	841,508	30%	43,419	34%	210,022	39%	282,613	40%
Totals	568	100%	2,818,136	100%	126,017	100%	533,891	100%	708,831	100%
Median Family Income (MFI) = \$36,886					Median Housing Value = \$75,454					
HUD Adjusted MFI for 1997 = \$49,100					Median Year Housing Built = 1969					

Source: 1990 US Census and 1997 HUD updated MFI.

A review of local government initiatives and community contacts conducted in Harris County and the Houston MSA indicates there are a number of opportunities to participate in community development lending, investment and service activities. There are numerous public agencies and community- and neighborhood-based organizations that focus on community development. The primary credit need identified by the contacts are loans for affordable housing, affordable home improvement, revitalization of low-income areas, and small business. Overall, community development opportunities in Harris County are characterized as high.

Discussion of Performance Tests in the Houston AA

LENDING TEST

Lending Activity

The Houston AA accounts for the largest percentage of consumer, small business and HMDA loan originations by the bank. Approximately 68% of direct consumer loans and roughly half of the small business loans originated in 1996 and 1997, were made in the Houston AA. Also, approximately 32% of HMDA related loans originated in Texas by First Bank Mortgage in 1996 and 1997 were made in this AA. Lending volume is good, particularly when considering that 54% of deposits are derived from this area.

Geographic Distribution of Loans within the Houston AA

Direct Consumer Loans

The geographic distribution of direct consumer loans indicates excellent dispersion throughout the Houston AA. The following chart shows the number of consumer loans originated during the review period which are located in low-, moderate-, middle, and upper-income census tracts.

Distribution of Direct Consumer Loan Originations in 1996 & 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts*	73	13%	179	31%	169	29%	147	25%
Loan Product	#	%	#	%	#	%	#	%
Other Secured Loans	25	22%	42	37%	27	24%	20	18%
Unsecured Loans	32	23%	54	39%	21	15%	31	22%
Total 1996	57	23%	96	38%	48	19%	51	20%
Other Secured Loans	19	19%	30	30%	21	21%	30	30%
Unsecured Loans	21	20%	36	34%	22	21%	28	26%
Total 1997	40	19%	66	32%	43	21%	58	28%
Grand Total 1996+1997	97	21%	162	35%	91	20%	109	24%

Source: Bank internal reports

* Does not include 14 census tracts which are not designated by income category.

Dispersion of the loans originated during the review period basically reflects the distribution of the area’s census tracts. Approximately 56% of these loans were originated in low- and moderate-income census tracts, which compares favorably to the percentage of such tracts.

Small Business Loans

The bank’s small business loans are not as well disbursed throughout the area as the direct consumer loans. However, no geographies are excluded, and the lending patterns are consistent with BTX branch locations. The following chart on the next page shows the number of small business loans originated within the AA in 1996 and 1997. The chart also displays the number and percentage of businesses located in low-, moderate-, middle-, and upper-income census tracts. Only one small farm loan was originated in the Houston AA during the review period, in a moderate-income census tract.

Distribution of Small Business Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	73	13%	179	32%	169	30%	147	26%
Number of Businesses	9,056	7%	36,416	29%	37,126	29%	43,419	34%
	#	%	#	%	#	%	#	%
1996 originations	8	11%	12	16%	16	22%	37	51%
1997 originations	8	5%	25	15%	63	38%	71	42%
Totals	16	7%	37	15%	79	33%	108	45%

Source: Dun & Bradstreet Business Demographic Data and bank-prepared Small Business and Farm Loan Data Collection Register

The number of loans made in upper- and middle-income census tracts is more than three times the number of loans made in low- and moderate-income census tracts. However, the percentage of loans made in low-income census tracts is reasonable when considering the number of businesses located in these areas. Approximately 7% of small business loans were originated in low-income census tracts and 7% of the total number of businesses are located within low-income census tracts. The percentage of loans originated in moderate-income census tracts does not favorably compare to the percentage of businesses in such tracts.

The bank's lending patterns are consistent with its branch network. The bank's branches are primarily located in the south central portion of Houston. Many moderate-income census tracts which contain a large number of businesses are not near BTX locations. BTX does a good job of lending in low- and moderate-income census tracts in proximity to its branch locations.

Home Mortgage Loans

Although lending volume is very low, a review of residential lending patterns in 1996 and 1997 shows that no geographies are excluded. Also, the percentage of loans originated in each census tract income category generally reflects the percentage of owner-occupied housing in each tract category. The following chart on the next page shows residential lending patterns by the income level of the census tracts located within the Houston AA.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	73	13%	179	32%	169	30%	147	26%
Number of 1-4 Family Units (Owner Occupied)	30,757	6%	120,898	23%	172,214	32%	210,022	39%
Median Year Built of Housing	1960		1964		1973		1974	
	#	%	#	%	#	%	#	%
Total 1996	2	14%	3	21%	3	21%	6	43%
Total YTD 1997	0	0%	7	25%	13	46%	8	29%
Grand Total	2	5%	10	24%	16	38%	14	33%

Source: 1990 Census Data, U.S. Census Bureau, and bank-prepared HMDA Loan Application Registers

Distribution by Borrowers' Income within the Houston AA

Loans originated during the evaluation period are very well distributed among consumers of different income levels. Business loans are adequately distributed among businesses of different sizes. Direct consumer loans make up 47% of the number of loans analyzed in the Houston AA. Approximately 38% of these consumer loans were to low-income individuals, and another 28% were to moderate-income borrowers. These lending patterns indicate the bank has a very good record serving all segments of its community, particularly near its branches.

Direct Consumer Loans

BTX is responsive to consumer credit needs in Houston, and has an excellent record of lending to borrowers of different incomes. The following chart on the next page shows the loans originated by BTX in 1996 and 1997 to borrowers of different income levels. For comparison, it also shows the distribution of families living in the assessment areas by income level.

Distribution of Direct Consumer Loan Originations in 1996 & 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	164,156	23%	119,338	17%	142,724	20%	282,613	40%
Loan Product	#	%	#	%	#	%	#	%
Other Secured Loans	49	44%	29	26%	19	17%	15	13%
Unsecured Loans	44	32%	47	34%	25	18%	21	15%
Total 1996	93	37%	76	31%	44	18%	36	14%
Other Secured Loans	39	39%	22	22%	17	17%	21	21%
Unsecured Loans	40	40%	26	26%	18	18%	15	15%
Total 1997	79	40%	48	24%	35	18%	36	18%
Grand Total 1996+1997*	172	38%	124	28%	79	18%	72	16%

Source: 1990 Census, U.S. Census Bureau, and bank internal reports

* Does not include 12 loans to borrowers of unknown income.

Two out of three direct consumer loans were made to low- and moderate-income borrowers. This compares very favorably to the percentage of low- and moderate-income families in the areas, and demonstrates the bank's responsiveness to consumer credit needs within its assessment area.

Small Business and Small Farm Loans

BTX has been responsive to small business credit needs within the Houston assessment area. The following chart shows the bank's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	146	61%	\$7,667	18%	122	84%	\$6,454	84%
\$100,000 to \$250,000	45	19%	\$8,240	19%	24	53%	\$4,253	52%
\$250,000 to \$1,000,000	49	20%	\$27,358	63%	26	53%	\$14,915	55%
Totals	240	100%	\$43,265	100%	172	72%	\$25,622	59%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:								
< 1 Million					72%			
> 1 Million					9%			
Unknown					19%			
					*As a percentage of loans of the size category			

Source: Dun & Bradstreet Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the above chart, a majority of the number of small business loans had original loan amounts of \$100 thousand or less, and a high percentage of the number and dollar amount of those loans were to small businesses with annual revenues of less than \$1 million. Demographic data reveals that approximately 72% of the businesses located in the Houston AA have revenues of less than \$1 million. BTX small business lending patterns are consistent with the number of small businesses located within the assessment area.

Home Mortgage Loans

BTX originates home related loans to individuals and families across economic lines. The following table reflects the distribution of HMDA reportable loans originated in the Houston AA during the review period. For comparison, it also shows the distribution of families living in the assessment areas by income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Areas By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	164,156	23%	119,338	17%	142,724	20%	282,613	40%
Loan Product	#	%	#	%	#	%	#	%
1996	3	23%	5	38%	4	31%	1	8%
1997	5	17%	7	24%	6	21%	11	38%
Grand Total	8	19%	12	29%	10	24%	12	29%

Source: 1990 Census, U.S. Census Bureau, and bank HMDA Loan Application Registers

Although loan volume is low, the percentage of loans originated in each borrower income category compares favorably to the percentage of borrowers in each category. Nearly half of the mortgages originated were to low- or moderate-income borrowers.

Community Development Lending

BTX community development lending activities within the Houston AA are strong. Overall, Houston offers a number of opportunities for bank participation in community development projects. The bank is actively involved in various projects through direct loan participation. BTX originated five community development loans totaling more than \$7.4 million since the previous CRA evaluation. The bank funded more than \$430 thousand in loans to a developer to construct 10 affordable homes in Harris County which qualify for low cost mortgage programs. The other community development loans financed the renovation construction of commercial buildings in a depressed area outside of downtown Houston. All of the loans directly benefit the Houston AA.

INVESTMENT TEST

There are a large number of opportunities in Houston for financial institutions to participate in community development investments. Also, the bank derives a majority of its deposits and makes the majority of its loans in this large market. BTX has a very limited number and amount of qualified community development investments in the Houston assessment area. Improvement in the number and dollar amount of qualified investments is needed.

The bank invested \$25,000 in the Houston Area Small Business Fund, however, the group is no longer active. Bank management has been instrumental in organizing Accion Texas, a micro-lending group dedicated to providing loans to small businesses not eligible for traditional bank financing. Accion has been very successful in other areas of the state. The bank has \$10,000 invested in this project and Accion will use bank office space to meet with clients. The value of the office space is estimated to be \$5,000 per year.

The bank has made donations to the Houston Credit Coalition and the Houston Housing Partnership. These groups offer financial counseling, home ownership training, and the Houston Housing partnership provides down payment assistance to low- and moderate-income home buyers. All of the investments by BTX directly benefit its assessment area.

SERVICE TEST

Delivery systems are reasonably accessible to essentially all portions of the assessment area. There have been no branches opened or closed since the prior CRA evaluation. Services offered by BTX in the Houston AA reflect those offered by the overall bank. One full service branch, with drive-up and ATM facilities is located in each of a low-, moderate- and upper-income census tract. The Northside branch serves a large, predominantly low- and moderate-income customer base in a large, predominantly minority neighborhood served by BTX and only one other bank.

The bank provides a reasonable level of community development services in the Houston AA. These services include providing technical assistance on financial matters to nonprofit organizations that serve low- and moderate-income individuals and families, and to other groups which promote community development or affordable housing. Also, the bank was instrumental in organizing Accion in Houston which will result in alternative financing for small businesses in the area. All of these services benefit the Houston assessment area. Opportunities for banks to participate in community development services in Houston are high, as discussed under the Service Test previously.

Description of Institution's Operations in the Dallas Assessment Area

BTX has designated Dallas and Collin Counties as its assessment area (AA) within the Dallas Metropolitan Statistical Area (MSA). The bank operates three full-service branches in the AA, two in the north and northwest sections of Dallas County, and one in the town of McKinney in Collin County. The Dallas assessment area is very large and includes substantial geographies in Dallas County which cannot be reasonably served by BTX branches.

Deposits originating from the Dallas AA represent 39% of the bank's total deposits; deposits from Collin County alone total 28% of total deposits. BTX has less than 1% of the market share of deposits. Local banking competition is aggressive and includes affiliates of several large national banking companies, regional banks, numerous community banks, credit unions and non-bank financial service providers.

Description of the Dallas Assessment Area

The Dallas MSA includes six counties in addition to Dallas and Collin Counties. Dallas County is the largest. These counties contain 463 census tracts. Eight or 2% of the tracts are not classified by income category and are excluded from the following table. This table presents basic demographic data based on the income level of the census tracts and families within the Dallas AA.

Demographic Information Dallas Assessment Area (Dallas & Collin Counties)										
Income Category	By Income Level of Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	56	12%	185,310	9%	5,857	6%	18,560	4%	111,946	20%
Moderate	118	25%	528,531	25%	27,721	28%	82,874	19%	96,606	18%
Middle	144	31%	778,439	37%	32,832	33%	164,236	38%	118,068	22%
Upper	137	30%	623,970	29%	32,516	33%	164,706	38%	218,749	40%
Totals	455	100%	2,116,250	100%	98,926	100%	430,376	100%	545,369	100%
Median Family Income (MFI) = \$38,754					Median Housing Value = \$93,996					
HUD Adjusted MFI for 1997 = \$52,300					Median Year Housing Built = 1970					

Source: 1990 US Census and 1997 HUD updated MFI.

The Dallas economy is healthy and growing. Predominant industries include the retail trade, technological development, insurance and medical services. Major

employers include Texas Instruments. Unemployment is in line with state and local averages.

A review of local government initiatives and community contacts conducted in the Dallas MSA indicates there are a number of opportunities to participate in community development lending, investment and service activities. There are numerous public agencies and community- and neighborhood-based organizations that focus on community development. The primary credit need identified by the contacts include low-cost deposit and loan products for low-income individuals, affordable housing, affordable mortgage and home improvement loans, revitalization of low-income areas, and small business loans. Overall, community development opportunities in Dallas and Collin Counties are characterized as high.

Discussion of Performance Tests in the Dallas AA

LENDING TEST

Lending Activity

Overall, lending volume is reasonable considering that 39% of deposits are derived from this area. The Dallas AA accounts for fewer loan originations by the bank than the Houston AA. Approximately 36% of direct consumer and small business loans included in this analysis were made in the Dallas AA. Only four HMDA-related loans were originated First Bank Mortgage in 1996 and 1997 were made in Dallas, therefore no data is presented on these loans.

Geographic Distribution of Loans within the Dallas AA

Direct Consumer Loans

The geographic distribution of direct consumer loans indicates reasonable dispersion throughout the Dallas AA, with the exception of low-income census tracts. The following chart on the next page shows the number of consumer loans originated during the review period which are located in low-, moderate-, middle, and upper-income census tracts.

Distribution of Direct Consumer Loan Originations in 1996 & 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts*	73	13%	179	31%	169	29%	147	25%
Loan Product	#	%	#	%	#	%	#	%
Other Secured Loans	1	2%	18	38%	10	21%	19	40%
Unsecured Loans	0	0%	14	32%	11	25%	19	43%
Total 1996	1	1%	32	35%	21	23%	38	41%
Other Secured Loans	0	0%	11	20%	19	35%	24	44%
Unsecured Loans	0	0%	10	22%	13	28%	23	50%
Total 1997	0	0%	21	21%	32	32%	47	47%
Grand Total 1996+1997	1	1%	53	28%	53	28%	85	44%

Source: Bank internal reports

* Does not include 8 census tracts which are not designated by income category.

The bank originated only one loan in a low-income census tract during the two-year review period which bank management stated is the result of the lack of a bank branch in a low-income census tract. Otherwise, dispersion of the loans originated during the review period basically reflects the distribution of the area's census tracts.

Small Business Loans

The bank's small business loans are reasonably disbursed throughout the area as the direct consumer loans, given the bank's resources and branch locations. No geographies are excluded, and the lending patterns are consistent with BTX branch locations. The following chart on the next page shows the number of small business loans originated within the AA in 1996 and 1997. The chart also displays the number and percentage of businesses located in low-, moderate-, middle-, and upper-income census tracts. Only three small farm loans were originated in the Dallas AA during the review period (all in 1996), one in a moderate-income census tract and two in middle-income tracts.

Distribution of Small Business Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	56	12%	118	26%	144	32%	137	30%
Number of Businesses	9,056	7%	36,416	29%	37,126	29%	43,419	34%
	#	%	#	%	#	%	#	%
1996 originations	1	2%	20	37%	14	26%	19	35%
1997 originations	1	2%	19	40%	10	21%	17	36%
Totals	2	2%	39	39%	24	24%	36	36%

Source: Dun & Bradstreet Business Demographic Data and bank-prepared Small Business and Farm Loan Data Collection Register

The percentage of loans made in low-income census tracts is low, however, the bank has no branches in low-income census tracts. Also, the majority of the census tracts not penetrated by the bank are not in proximity to the bank's branches in Dallas and Collin Counties. However, the percentage of loans made in moderate-income census tracts is very good compared to the percentage of businesses in these areas. Approximately 39% of small business loans were originated in moderate-income census tracts and 29% of the total number of businesses are located within these tracts. BTX does a good job of lending in low- and moderate-income census tracts in proximity to its branch locations.

Distribution by Borrowers' Income within the Dallas AA

Loans originated during the evaluation period are well distributed among consumers of different income levels. Business loans are adequately distributed among businesses of different sizes. Direct consumer loans make up 76% of the loans analyzed in the Dallas AA. Approximately 35% of these consumer loans were to low-income individuals, and another 24% were to moderate-income borrowers. These lending patterns indicate the bank has a very good record serving all segments of its community, particularly near its branches.

Direct Consumer Loans

BTX is very responsive to consumer credit needs in Dallas. The following chart on the next page shows the loans originated by BTX in 1996 and 1997 to borrowers of different income levels. For comparison, it also shows the distribution of families living in the assessment areas by income level.

Distribution of Direct Consumer Loan Originations in 1996 & 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	111,946	21%	96,606	18%	118,068	22%	218,749	40%
Loan Product	#	%	#	%	#	%	#	%
Other Secured Loans	17	35%	2	4%	13	27%	16	33%
Unsecured Loans	9	20%	10	23%	7	16%	18	41%
Total 1996	26	28%	12	13%	20	22%	34	37%
Other Secured Loans	18	33%	10	19%	8	15%	18	33%
Unsecured Loans	8	17%	5	11%	9	20%	24	52%
Total 1997	26	26%	15	15%	17	17%	42	42%
Grand Total 1996+1997*	52	27%	27	14%	37	19%	76	40%

Source: 1990 Census, U.S. Census Bureau, and bank internal reports

The bank's lending patterns reflect the distribution of families across income categories. Approximately 41% of direct consumer loans were made to low- and moderate-income borrowers. The percentage of loans originated to low-income borrowers compares very favorably to the percentage of low-income families in the areas, and demonstrates the bank's responsiveness to consumer credit needs within its assessment area.

Small Business and Small Farm Loans

BTX has been responsive to small business credit needs within the Dallas assessment area. The following chart shows the bank's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size				Annual Revenues < \$1 Million				
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	64	63%	\$2,171	15%	43	67%	\$1,124	52%
\$100,000 to \$250,000	17	17%	\$2,902	20%	6	35%	\$840	29%
\$250,000 to \$1,000,000	21	21%	\$9,771	66%	5	24%	\$2,280	23%
Totals	102	100%	\$14,844	100%	54	53%	\$4,244	29%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:				< 1 Million	71%	*As a percentage of loans of the size category		
				> 1 Million	10 %			
				Unknown	19%			

Source: Dun & Bradstreet Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the above chart, a high percentage of the number of small business loans had original loan amounts of \$100 thousand or less, and a substantial majority of the number of these loans were to small businesses with annual revenues of less than \$1 million. Demographic data reveals that approximately 72% of the businesses located in the Houston AA have revenues of less than \$1 million. BTX small business lending patterns are consistent with the number of small businesses located within the assessment area.

Community Development Lending

BTX community development lending activities within the Dallas AA are reasonable for a bank of its size and resources. Overall, Dallas offers a number of opportunities for bank participation in community development projects. The bank is actively involved in one large project through direct loan participation. BTX originated a line of credit to Community Housing of Dallas in the amount of \$750,000. Approximately \$500,000 was funded by the bank during the review period to allow Community Housing to finance the construction or rehabilitation of several affordable homes ranging in price from \$30,000 to \$50,000. This line of credit directly benefits the Dallas AA.

INVESTMENT TEST

BTX has made virtually no qualified community development investments in the Dallas assessment area. Improvement in the number and dollar amount of qualified investments is needed. Only \$1,734 was donated to charitable and educational programs which meet the definition of community development in the Dallas area in 1996 and 1997. There are a large number of opportunities in Dallas for financial institutions to participate in community development

investments. Also, the bank derives a significant amount of its deposits from this large market. Information was provided to management on a wide variety of investments in the Dallas MSA, and management intends to use this information to invest in the Dallas community going forward.

SERVICE TEST

Delivery systems are fairly accessible to most portions of the assessment area. There have been no branches opened or closed since the prior CRA evaluation. Services offered by BTX in the Dallas AA reflect those offered by the overall bank. All branches have drive-up and ATM facilities. One branch is located in a moderate-income census tract in western Dallas County. The other two branches, one in north Dallas and the other in the center of Collin County, are in upper-income census tracts. The bank also operates a stand alone ATM in McKinney which is in an upper-income census tract.

The bank facilities are located in the west and northwest sections of the MSA. Large freeway systems pose a form of barrier to the bank penetrating those census tracts on the far southern side of these freeway systems. As a result, the bank cannot reasonably serve all portions of the large assessment area. However, analysis of the geographical distribution of loans and deposits indicates BTX reasonably serves all communities in proximity to its branches.

The bank provides a reasonable level of community development services in the Dallas AA. These services include providing technical assistance on financial matters to nonprofit organizations that serve low- and moderate-income individuals and families, and to other groups which promote community revitalization and development or affordable housing. BTX also provides financial planning and home ownership counseling to individuals and groups, primarily focusing on students and low- and moderate-income individuals. Also, a bank officer is instrumental in locating and obtaining lots for Community Housing of Dallas to construct affordable homes. All of these services directly benefit the Dallas assessment area, where opportunities for banks to participate in community development services is considered high.

Appendix A: Scope of Examination

Time Period Reviewed	January 1, 1996 to December 31, 1997		
Financial institution BankTEXAS, N.A. Houston, TX			Products reviewed Small business, Small farm, HMDA-related Loans (home purchase and refinance, home improvement), direct consumer loans
Affiliate(s)	Affiliate relationship		Products reviewed
First Bank Mortgage Company First Banks, Inc.	Mortgage company affiliate Holding Company		HMDA-related loans (home purchase and refinance, home improvement) originated in Texas only Community Development Investments
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Houston Dallas	on-site on-site	3 0	The examination scope was the same for each assessment area.