



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**May 24, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Bank of Conroe National Association  
Charter Number 18612

1800 West White Oak Terrace  
Conroe, TX 77304-0000

Office of the Comptroller of the Currency

HOUSTON Field Office  
1301 McKinney Street, Suite 1410  
Houston, TX. 77010-3031

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

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

First Bank of Conroe, N.A. (FBC) has an Outstanding record of meeting community credit needs. This is based on the following:

- The loan-to-deposit (LTD) ratio is more than reasonable and exceeds the standards for satisfactory performance given the institution's size and credit needs of its assessment area (AA).
- A substantial majority of the loan originations and lending-related activities are in the bank's AA.
- The borrower distribution of loans within the AA to individuals of different income levels and businesses of different sizes, which is the bank's primary loan product, is excellent.
- The geographic distribution of loans to businesses, residential real estate and consumers, exceeds the characteristics of the AA and shows excellent dispersion.

**SCOPE OF EXAMINATION**

FBC was evaluated under the Small Bank full-scope examination procedures which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. Our review was focused on the primary loan product both by number and dollar amount of loans. Significant emphasize was placed on business lending as it is the bank's primary product and comprises 72 percent of the total loan portfolio. Residential real estate and consumer loans were also reviewed.

We selected a statistically valid sample using bank reports of business and consumer loan originations January 1, 2007 through May 21, 2010. The sample was used to determine lending in the AA, geographic distribution of originated loans, gross revenue, consumer income, and census tracts (CTs). Our sample consisted of 25 business loans and 21 consumer loans. We also selected a statistically valid sample of 25 loans from the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) to determine the reliability of the loan information reported. We found the information to be reliable and therefore 100 percent of the residential real estate loan data for 2007, 2008 and 2009 was used.

**DESCRIPTION OF INSTITUTION**

FBC is a full service community bank headquartered in Conroe, Texas, which opened in 1985 as a member of First Bancorporation of Cleveland, Inc., and became an independent bank in May 1987. FBC is affiliated, by common ownership, with First Bank and Trust of East Texas. FBC has a main office located on West White Oak Terrace in Conroe in an upper-income CT and five full service branches. The branches

are located on Loop 336, FM 1488/Magnolia, Cut and Shoot, Willis and downtown Montgomery. All the branches are located in upper-income CTs, with the exception of the Cut and Shoot and downtown Montgomery branches. The Cut and Shoot branch is in a moderate-income CT and the downtown Montgomery is in a middle-income CT. In October 2003, a branch on Highway 105 West was opened as an outlet for the downtown Montgomery traffic. However, an additional 1,000 square feet were added to the downtown Montgomery branch, making it more accessible and thus eliminating the need for the Highway 105 West branch. This branch was closed in March 2009. The Willis location is the newest branch which opened in January 2006. ATMs are available at all branches. All branches offer bilingual services. Banking hours are reasonable and meet the needs of the community, with regular lobby hours Monday through Thursday and extended lobby hours on Friday. The main office is the only branch that does not offer Saturday hours. Online access to account information is available through QuickConnect Online Banking. The bank also offers an Automated Response Telephone Inquiry System (A.R.T.I.E.) that is bilingual and available toll-free 24 hours a day. And there is the option of banking by mail, where FBC's customers can mail their deposits to the bank. In addition, FBC reimburses all ATM fees to their customers.

As of March 31, 2010, FBC had assets of \$248 million and a Tier One Leverage Capital Ratio of 9.37 percent. The bank offers an array of standard deposits and loan products and services, including conventional mortgage loans, mini-perm loans, consumer loans, commercial loans, deposit accounts, certificates of deposit, remote deposit capture and Individual Retirement Accounts. The bank's mortgage department is also able to offer access to First-Time Home Buyer Programs as well as Veterans Administration (VA) and Federal Housing Administration (FHA) loan products in the secondary market. There are no legal or financial restrictions that will impede the bank's ability to help meet credit and community development needs of the AA. The bank was rated Outstanding at its last CRA examination dated December 1, 2003.

*Please refer to FBC's CRA Public File for more information about this institution.*

## **DESCRIPTION OF ASSESSMENT AREA(S)**

Montgomery County is located within the Houston-Sugarland-Baytown Metropolitan Area and is the 36<sup>th</sup> fastest growing county in the U.S. according to recent U.S. Census Bureau estimates. The county, known as the "Birthplace of the Lone Star Flag," covers over 1,000 square miles and is the 15<sup>th</sup> largest county in Texas. The county is comprised of 47 CTs of which one is in a low-income CT, nine are in a moderate-income CT, sixteen are in a middle-income CT and twenty are in an upper-income CT. There was one CT for which no census data is available. Montgomery County encompasses the communities of Conroe, Magnolia, Willis, Cut and Shoot, Splendora, New Caney, Porter, The Woodlands, and Shenandoah.

In 2009, the U.S. Census estimated Montgomery County's population to be 447,718, a 52.4 percent growth rate in the nine years from the last U.S. Census. The Greater Conroe Economic Development Council estimates that Conroe, the county seat of Montgomery County, currently has a population of more than 38,000. Conroe's

economy has greatly diversified in the last 20 years with the growth of industries such as manufacturing, retail, health care, biotechnology, construction, and tourism. Employment opportunities are largely centered in the trade and service sector. According to the Bureau of Labor Statistics, unemployment for Montgomery County as of March 2010 was 7.7 percent. The 2000 U.S. Census data indicates 20.61 percent of the population is living on social security and 12.74 percent of the population is living on retirement income. There are 80,750 owner occupied single-family housing units and 22,546 rental housing units. The median sales price of a single-family residence is \$104,083, and the median family income is \$63,800. The weighted average monthly gross rent is \$644.

Financial services competition in Montgomery County is intense. There are numerous branches of large multi-state national and regional financial institutions as well as entrenched local community banks competing for the small business market. In addition, there is a large competitive credit union located in the Conroe area as well as mortgage companies, finance companies, and other financial institutions. FBC is 9<sup>th</sup> in deposit market share among financial institutions in the area. The largest deposit competitors are: Woodforest National Bank, JPMorgan Chase Bank, N. A., Amegy Bank, N. A., Bank of America, N. A., Wells Fargo Bank, N. A., Wachovia Bank, N. A., Compass Bank, and Texas Community Bank, N. A.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The LTD ratio is more than reasonable in light of the bank's performance context, and exceeds the standards for satisfactory performance. The bank's quarterly average since December 31, 2003 is 85.69 percent. Although several other banks have branches in Montgomery County, the only two other banks headquartered in the county are not comparable based on size and lines of business. A peer group of ten comparable banks headquartered in adjacent counties, with total assets of \$100-300 million, had quarterly average ratios of 63.95 percent for the above time period.

### **Lending in Assessment Area**

A substantial majority of loans were originated in the AA, and the overall level of lending in the AA exceeds the standards for satisfactory performance. As noted in the table below, approximately 79 percent of the number of loans and 85 percent of the dollar amount of loans were originated in the AA. The bank's performance is shown in the following table:

<b>Table 1 - Lending in Montgomery County</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	124	74.70	42	25.30	166	25,917	83.07	5,281	16.93	31,198
Home Improvement	42	79.25	11	20.75	53	1,132	60.08	752	39.92	1,884
Refinancing	30	88.24	4	11.76	34	4,875	89.61	565	10.39	5,440
Business	15	75.00	5	25.00	20	6,180	94.95	329	5.05	6,509
Consumer	19	95.00	1	5.00	20	273	97.84	6	2.16	279
<b>Totals</b>	<b>230</b>	<b>78.50</b>	<b>63</b>	<b>21.50</b>	<b>293</b>	<b>38,377</b>	<b>84.70</b>	<b>6,933</b>	<b>15.30</b>	<b>45,310</b>

*Source: Loan data reported under HMDA; U.S. Census data*

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

Overall, the distribution of loans reflects a more than reasonable penetration among households and families of different income levels and businesses of different sizes, and exceeds the standard for satisfactory performance. We reviewed a sample of business, residential real estate and consumer loans originated in the Montgomery County AA. We placed significant emphasize on business lending and the bank's performance in this area as it is the primary product.

### **Small Business**

Lending to small businesses with gross revenues equal to or less than \$1 million is excellent. We compared the bank's loan originations to information about the size of businesses for each AA according to Dun & Bradstreet information. For dollar amount of loans, the bank's performance is below the characteristics of the AA. However, the size of loans extended to those borrowers with revenues greater than \$1 million is large and had a significant affect on the percentage of the dollar amount of loans. Therefore, the number percentage was assigned a greater weight in our evaluation. The bank's performance is shown in the following table:

<b>Table 2 - Borrower Distribution of Loans to Businesses in Montgomery County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	78.03	3.39	18.58	100%
% of Bank Loans in AA by #	<b>75.00</b>	15.00	10.00	100%
% of Bank Loans in AA by \$	<b>49.35</b>	48.58	2.07	100%

*Source: Dun and Bradstreet data.*

### **Residential Real Estate**

The distribution of residential real estate loans reflects a reasonable penetration among borrowers of different incomes given the demographics. We analyzed residential real estate lending using borrower income compared to the median family income levels

according to U.S. Census Bureau information. The 2009 median family income for the Montgomery County AA was \$63,800. A low-income family in this AA has income up to \$31,899 annually. We considered the level of difficulty for the bank to originate residential real estate loans to families with incomes at or below this level. We also considered that the bank does not offer long term fixed rate mortgages, but is able to provide access to conventional mortgage products through its relationship with a number of investors in the secondary market.

Although below the characteristics of the AA, officers have originated loans to low- and moderate-income borrowers. In particular, originating loans to low-income borrowers is difficult considering the limited opportunity to lend to borrowers of this income level. Lending to moderate-income borrowers for home improvement is near the characteristics of the AA. The bank’s performance is shown in the following table:

Table 2A - Borrower Distribution of Residential Real Estate Loans in Montgomery County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17.18	<b>0.81</b>	16.17	<b>7.26</b>	19.16	13.71	47.49	65.32
Home Improvement	17.18	<b>4.76</b>	16.17	<b>14.29</b>	19.16	19.05	47.49	50.00
Refinancing	17.18	<b>3.33</b>	16.17	<b>3.33</b>	19.16	23.33	47.49	53.33

*Source: Loan data reported under HMDA; U.S. Census data. Gross income information was unavailable on 12.90% of home purchase, 11.90% of home improvement and 16.67% of refinancing loans.*

**Consumer**

The distribution of consumer loans demonstrates an excellent penetration for low-income borrowers, and is only marginally below the characteristics for moderate-income borrowers. We analyzed consumer lending using borrower income compared to the median household income levels according to U.S. Census Bureau information. The 2007 through 2009 median household income for the AA was \$55,290. A low-income household in this AA has income up to \$27,644 annually. Therefore, lending to borrowers of this income level shows an excellent dispersion. The bank’s performance is shown in the following table:

Table 2B - Borrower Distribution of Consumer Loans in Montgomery County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	19.22	<b>20.00</b>	14.77	<b>10.00</b>	18.08	10.00	47.96	45.00

*Source: U.S. Census data. Gross income information was unavailable on 15.00% of the loans.*

**Geographic Distribution of Loans**

Overall, the geographic distribution of loans exceeds the standards for satisfactory performance given the demographics of the AA. We reviewed a sample of business, residential real estate and consumer loans originated in the Montgomery County AA. We placed significant emphasize on business lending and the bank’s performance in this area as it is the primary product. The AA consists of 47 CTs of which one is a low-income CT and nine are moderate-income CTs.

**Small Business**

Geographic distribution of business loans reflects an excellent dispersion and significantly exceeds the characteristics of the AA in low-income CTs. Although below the characteristics of the AA, lending in moderate-income CTs is reasonable. The bank’s performance is shown in the following table:

<b>Table 3 - Geographic Distribution of Loans to Businesses in Montgomery County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	1.81	<b>5.00</b>	15.52	<b>10.00</b>	26.56	30.00	51.68	55.00

*Source: Dun & Bradstreet data.*

**Residential Real Estate**

The geographic distribution of residential real estate reflects an excellent dispersion. Performance in low-income CTs is exceptional and significantly exceeds the percentage of owner occupied housing for refinancing. Penetration in moderate-income CTs is excellent for all three loan types. Considering the bank does not offer long term fixed rate mortgages, making it difficult to originate home purchase loans, lending in low- and moderate-income CTs exceeds the standard for satisfactory performance. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Residential Real Estate Loans in Montgomery County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.35	<b>0.00</b>	17.06	<b>26.61</b>	30.33	31.45	52.26	41.94
Home Improvement	0.35	<b>0.00</b>	17.06	<b>28.57</b>	30.33	35.71	52.26	35.71
Refinancing	0.35	<b>3.33</b>	17.06	<b>36.37</b>	30.33	26.67	52.26	33.33

Source: Loan data reported under HMDA; U.S. Census data.

### Consumer

Geographic distribution for consumer loans shows an excellent dispersion and exceeds the standard for satisfactory performance. Although there is no penetration in low-income CTs, families located in these CTs make up less than 2 percent. However, lending in moderate-income CTs exceeds the characteristics of the AA. The bank's performance is shown in the following table:

Table 3B - Geographic Distribution of Consumer Loans in Montgomery County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	1.39	<b>0.00</b>	18.94	<b>20.00</b>	30.58	35.00	49.10	45.00

Source: U.S. Census data.

### **Community Development Loans**

We identified three community development loans aggregating \$498 thousand that were originated or renewed during the evaluation period. The loans were to finance apartment complexes in the bank's AA for which the average rental rates were less than the median rental rates in the AA.

### **Community Development Investments**

We reviewed records of the bank's investments and donations that benefit low- and moderate-income individuals, organizations, or CTs. A \$1,500 donation was made to an organization devoted to the revitalization of downtown Conroe, which is located in a moderate-income CT.

## **Community Development Services**

Many of the bank's directors, officers, and other employees represent the bank in providing financial advisory and other financial services to organizations that promote economic development or provide services to financially disadvantaged individuals and organizations. An example of the former includes service on the board of the Greater Conroe Economic Development Corporation by several directors and officers. An example of the latter includes officers and employees acting in a financial advisory capacity or as cashiers for the Salvation Army, which provides provide food and clothing to the needy.

The bank's branch in Cut and Shoot provides the full range of the bank's products and services in a moderate-income CT. The CT is contiguous to five of the other eight moderate-income CTs and the only low-income CT in the AA.

## **Responses to Complaints**

The bank did not receive any complaints related to CRA during the evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.