

Public Disclosure

November 1, 1999

Community Reinvestment Act Performance Evaluation

**Main Street National Bank
Charter Number: 18104**

**908 East Houston Street
Cleveland, Texas 77327**

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

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

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Main Street National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 1, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated *satisfactory*.

Main Street National Bank has a *satisfactory* record of meeting credit needs within the community. The bank meets the factors considered to assign the rating as evidenced by:

- ! A reasonable distribution of loan originations to borrowers of different income levels and businesses of different sizes;
- ! A loan-to-deposit ratio that meets the standards for satisfactory performance;
- ! A majority of loan originations within the bank's assessment area; and,
- ! A reasonable geographic distribution of loan originations within the assessment area.

Description of Institution

Main Street National Bank is a \$19 million institution serving its customers through two locations, both with drive-in facilities. The main office is in Liberty County at 908 East Houston in Cleveland, Texas. The branch is in northwest Harris County at 1102 Kingwood Drive, Suite 101, Kingwood, Texas. The institution has one automated teller machine for the two locations. Construction delays have prevented the opening of a second branch in a retirement community near the Kingwood area. Management believes that the branch will open before year-end 1999. The bank is not part of a holding company. Hours of operation are reasonable and similar to surrounding financial institutions. Traditional loan products for small businesses and consumers are offered.

Net loans at September 30, 1999 were \$11 million and represented 53 percent of total assets. The bank is primarily a commercial lender. Almost all of the construction and land development loans are purchased from other lenders. The following table reflects lending per the Consolidated Report of Condition for Insured Commercial and State-Chartered Savings Banks for September 30, 1999.

Table 1

Loan Category	Dollar Amount (In 000's)	Percentage
Commercial and Commercial Real Estate	3,214	30%
1 - 4 Family Residential	2,670	25%
Consumer	2,373	22%
Construction and Land Development	2,361	22%
All Other	81	1%
Total	10,699	100%

The bank offers typical deposit accounts such as checking, savings, money market, and time accounts. Also, merchant MasterCard and Visa depository services are offered.

The bank does not have any legal or financial circumstances that impede its ability to help meet the credit needs in its assessment area. The evaluation period is from the prior CRA examination date of May 13, 1996 through November 1, 1999. At the prior examination, the bank was assigned a rating of *satisfactory*.

Description of Liberty, San Jacinto, Montgomery, and Harris County Assessment Area

The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The area includes twenty-one census tracts with nineteen in the Houston Metropolitan Statistical Area (MSA). These include five in Liberty County, nine in Montgomery County, and five in Harris County. Two non-MSA tracts are in San Jacinto County. These tracts are scarcely populated and contain part of the Sam Houston National Forest. The tracts have the following income characteristics: one low (5 percent), five moderate (24 percent), ten middle (47 percent), and five upper (24 percent). The assessment area chosen was based on the bank's size and ability to provide services. The assessment area is reasonable based on the bank's small size, limited staff and ability to provide services.

The weighted average of the MSA/Non-MSA Census Median Family Income was \$35,715 as of 1990. The updated MSA Median Family Income for 1999 is \$52,176. The income levels and percentages of families in the assessment area are: low (20 percent), moderate (15 percent), middle (20 percent), and upper income (45 percent). Approximately 13 percent of the families live below the established poverty level and 27 percent receive public assistance or social security.

The assessment area had 46 thousand housing units with 73 percent being 1 - 4 family units and mobile homes or trailers totaling 21 percent. The remaining 6 percent consists of multifamily and boarded up units. Owner-occupied units were 70 percent, and rental units were 17 percent. Vacant housing units were 13 percent of the total. The weighted average of the median housing value was \$68 thousand, and the monthly gross rent weighted average was \$456. The weighted average of the median year built was 1977.

The 1990 census placed the total population of the assessment area at 118 thousand. The Chamber of Commerce has determined that the major employers in Cleveland include Campbell Concrete and Materials (600 employees), Cleveland Independent School District (406 employees), and Cleveland Regional Medical Center (350 employees). A Kingwood market profile report shows 32 thousand persons employed in 1990 with 78 percent in white collar professions.

The economic condition of the area is stable. The close proximity to Houston, Texas has a significant influence on both of the bank's locations. According to the Greater Houston Partnership, unemployment in Houston was 5.3 percent in June of 1999, moderately above the national average of 4.5 percent and not significantly different from the Texas average of 5.4 percent. The primary industry is oil and gas, but Houston continues to diversify away from dependence on this sector. Other significant industries include export related fields, medical and medical research facilities, and business

services. Opportunities to trade with Mexico and other Latin American nations are significant. According to the Greater Houston Partnership, more than one-half of the world's one hundred largest non-U.S. based corporations have operations in Houston. Among U. S. Ports in 1996, Houston was first in foreign tonnage, first in import tonnage, and fourth in export tonnage and ranks eighth worldwide in total tonnage.

Dun & Bradstreet Inc. (D & B) 1998 business demographic data shows 4 thousand businesses in the assessment area. A significant majority of those that reported income information (80 percent) had revenues of less than \$1 million. These businesses are located in low income tracts (3 percent), moderate tracts (19 percent), middle tracts (40 percent), and upper income tracts (38 percent).

Competition is intense from small banks, non-bank financial entities and branches of regional and multinational institutions. Cleveland, Texas, the bank's main location, has three other banks. One bank is the oldest in town with a much larger asset size, another is a branch of a bank from the Houston MSA, and the other bank is the survivor of a merger with a much larger institution. The competition offers the same basic banking products. Cleveland also has two brokerage offices that compete for bank customers.

For the community contact, we met with a representative of the area Chamber of Commerce to determine the credit needs of the community. We also solicited information on the performance of area institutions. Our contact was positive concerning the efforts of local banks and did not reveal any unaddressed credit needs. Our contact stated the greatest need and opportunity for banks is in housing related loans. The second is small business loans. The bank grants both types of loans.

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

The loan-to-deposit ratio meets the standards for satisfactory performance. The ratio has averaged 53 percent for the fourteen quarters since the May 13, 1996 CRA examination. The ratio was 58 percent as of September 30, 1999. Table 2 shows the bank's ratios compared to two peer groups for the most recent five quarters ended June 30, 1999. The first comparison is to a local peer group of banks with less than \$100 million in assets in the four county assessment area. The second comparison is to a national peer group of similar banks in the United States. The comparison shows the bank has a loan-to-deposit ratio similar to the local peer group but below the national peer group. The following table shows quarterly information.

Table 2

For the Quarter Ending	Main Street National Bank Loan-to-Deposit Ratio*	Four County Peer Group Loan-to-Deposit Ratio*	National Peer Group of Similar Banks Loan-to-Deposit Ratio*
June 30, 1999	56%	59%	67%
March 31, 1999	54%	57%	64%
December 31, 1998	60%	58%	63%
September 30, 1998	51%	56%	65%
June 30, 1998	53%	59%	66%
Recent Five Quarter Average	55%	58%	65%

* as determined from Consolidated Report of Condition information.

Lending in The Assessment Area

The level of lending in the assessment area is a majority of its lending and meets the standard for satisfactory performance. Purchased construction and land development loans are approximately 22 percent of the portfolio and almost all of these loans are outside the assessment area. The remaining 78 percent of the portfolio is primarily within the assessment area. Table 3 details the results of a sample of commercial loan originations granted between January 1, 1999 and October 21, 1999. An analysis of the information shows a majority of commercial loans were originated within the assessment area.

Table 3

COMMERCIAL LOANS	INSIDE AREA	OUTSIDE AREA	TOTAL
Number of Loans	23	4	27
Percentage of Number of Loans	85%	15%	100%
Dollar Amount of Loans	\$ 1.3 Million	\$0.9 Million	\$2.2 Million
Percentage of Dollar Amount	59%	41%	100%

We reviewed consumer and 1 - 4 residential property loan products to further test originations in the assessment area. The samples were drawn from originations since

the prior examination dated May 13, 1996. The sample shows a majority of loan originations were within the assessment area. The results are reflected in Table 4.

Table 4

1 - 4 FAMILY RESIDENTIAL AND CONSUMER LOANS	INSIDE AREA	OUTSIDE AREA	TOTAL
1 - 4 Family - Number of Loans	22	6	28
Consumer - Number of Loans	21	3	24
Total Number of Loans	43	9	52
Percentage of Number of Loans	83%	17%	100%
1 - 4 Family - Dollar Amount	\$784 Thousand	\$737 Thousand	\$1,521 Thousand
Consumer - Dollar Amount	\$308 Thousand	\$24 Thousand	\$332 Thousand
Total Dollar Amount	\$1,092 Thousand	\$761 Thousand	\$1,853 Thousand
Percentage of Dollar Amount	59%	41%	100%

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

Lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. Although the bank is primarily a commercial lender, the level of originations in most loan categories was comparable for the period being examined. So, we reviewed originations for 1 - 4 family residential loans, consumer/individual loans, and commercial loans to arrive at our conclusions.

Lending to Individuals

We compared lending in the assessment area for 1 - 4 family residential loan products and consumer loans to the area demographic characteristics. Housing loans were identified as a need in the area by our community contact. This comparison revealed a satisfactory level of lending to low- and moderate-income borrowers. Both the number and dollar amount of consumer loans exceed the low income characteristics, and the

number and dollar amount to moderate income borrowers is similar to the area demographics. The number of 1 - 4 residential products loans exceeds the moderate income characteristics of the assessment area. The results are in Table 5.

Table 5

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS BY NUMBER OF LOANS										
Income of Families	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Area Demographic Characteristics	20%		15%		20%		45%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
1 - 4 Residential	2	9%	5	23%	9	41%	6	27%	22	100%
Consumer	6	29%	3	14%	4	19%	8	38%	21	100%
Total	8	19%	8	19%	13	30%	14	32%	43	100%
BY DOLLAR AMOUNT OF LOANS IN THOUSANDS (000)										
Loan Types	\$	%	\$	%	\$	%	\$	%	\$	%
1 - 4 Residential	28	4%	122	15%	376	48%	258	33%	784	100%
Consumer	71	23%	45	15%	48	15%	144	47%	308	100%
Total	99	9%	167	15%	424	39%	402	37%	1,092	100%

Small Business Loan Originations

A sample of commercial loans in the assessment area revealed a satisfactory level of lending to small businesses with less than \$1 million in revenues. Small business loan originations is the bank's primary focus and was identified by our community contact as being a need in the assessment area. Also, area characteristics reflect that 80 percent of local businesses are small, further validating the bank's focus. From January 1, 1999 through October 21, 1999, officers granted 78 percent of the number of loans (18 of 23) to small businesses. In addition, we found that nine of the eighteen loans were granted to businesses with less than \$100 thousand in revenues. One loan was granted to a start-up business. The dollar amount of loans (76 percent) granted to businesses with less than

\$1 million in revenues is also similar to the characteristics of the assessment area. The results of our review are summarized in the following table.

Table 6

COMMERCIAL LOANS				
Borrower Revenue Range	Number	%	Total of Loans \$	%
\$0 to less than \$1,000,000	18	78%	967,524	76%
\$1,000,000 and Over	5	22%	305,825	24%
Total	23	100%	1,273,349	100%

Geographic Distribution of Loans

The geographic distribution of loans is reasonable and reflects lending of all loan products in all income level census tracts. Our sample was obtained from loan originations since the last CRA examination.

Our analysis revealed a geographical distribution similar to the characteristics of the area with satisfactory penetration in low- and moderate-income census tracts. The assessment area has one low income census tract, which is predominately a residential area. So, there are no business loans in that tract. However, there is no evidence of any gaps in lending or any exclusion of lending in low or moderate income census tracts.

Commercial Loans

We compared the loan sample to the geographic distribution of businesses using 1998 Dun & Bradstreet demographic data. See Table 7 for the results.

Table 7

COMMERCIAL LOANS GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS					
Census Tract Designation	Low Income	Moderate Income	Middle Income	Upper Income	Total
Percent of Businesses by Tracts	3%	19%	40%	38%	100%

COMMERCIAL LOANS GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS										
	#	%	#	%	#	%	#	%	#	%
Total Loans	0	0%	2	9%	16	69%	5	22%	23	100%
BY DOLLAR AMOUNT OF LOANS IN THOUSANDS (000)										
	\$	%	\$	%	\$	%	\$	%	\$	%
Total Loans	0	0%	62	5%	979	77%	232	18%	1,273	100%

1 - 4 Family Residential Loan Products

We compared the bank's lending to the percent of owner-occupied units in the assessment area. Our analysis revealed a distribution similar to the characteristics of the assessment area. The results of our analysis are shown in the following table.

Table 8

1 - 4 RESIDENTIAL LOAN PRODUCTS GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS										
Census Tract Designation	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Percent of Owner Occupied	1%		16%		49%		34%		100%	
	#	%	#	%	#	%	#	%	#	%

1 - 4 RESIDENTIAL LOAN PRODUCTS GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS										
Total	1	4%	2	9%	12	55%	7	32%	22	100%
BY DOLLAR AMOUNT OF LOANS IN THOUSANDS (000)										
	\$	%	\$	%	\$	%	\$	%	\$	%
Total	6	1%	95	12%	350	45%	333	42%	784	100%

Consumer Loans

The sample of consumer loans revealed a distribution exceeding the characteristics of the assessment area for number of loans to low- and moderate-income borrowers. Similarly, the dollar amount of consumer loans exceeds the characteristics of the area in lending to moderate income borrowers. The results of our analysis are summarized in the following table.

Table 9

CONSUMER LOANS GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS					
Census Tract Designation	Low Income	Moderate Income	Middle Income	Upper Income	Total
Area Demographic Characteristics	2%	16%	46%	36%	100%

CONSUMER LOANS GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS										
	#	%	#	%	#	%	#	%	#	%
Total	1	5%	7	33%	6	29%	7	33%	21	100%
BY DOLLAR AMOUNT OF LOANS IN THOUSANDS (000)										
Loan Types	\$	%	\$	%	\$	%	\$	%	\$	%
Total	3	1%	92	30%	103	33%	110	36%	308	100%

Responses to Complaints

Main Street National Bank has not received any complaints during this evaluation period regarding its CRA performance.

Record of Compliance with Antidiscrimination Laws

A Fair Lending review was conducted concurrently with this CRA examination. Our scope included a review of twenty-two automobile loans originated in 1999. The prohibited basis group consisted of seven denied automobile loans to female applicants. Fifteen approved automobile loans to males served as the control group. Our file sample comparison focused on ensuring no prohibitive factors were considered in the underwriting process. We found no evidence of any possible discrimination or disparate treatment. We did not identify any substantive violations of anti-discrimination laws and regulations.