



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**August 1, 2011**

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

Community National Bank  
Charter Number 24303

5123 Bellaire Boulevard  
Bellaire, TX 77401

Office of the Comptroller of the Currency

Houston Field Office (ADC 8515)  
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 COMMUNITY REINVESTMENT ACT (CRA) RATING:  
This institution is rated Satisfactory.**

Community National Bank (CNB) has a Satisfactory record of meeting community credit needs. This is based on the following

- The loan-to-deposit ratio is reasonable in light of the bank's performance context, and meets the standards for Satisfactory performance.
- A majority of loans were originated within the assessment area (AA).
- Loan originations reflect a reasonable distribution among individuals of various income levels, and in particular, to businesses of different sizes within the AA.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA for residential loans, and in particular, for loans to businesses in the AA.

**SCOPE OF EXAMINATION**

CNB 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 focused on the bank's primary loan products. Particular emphasis was placed on business lending as it is the bank's most significant loan product, representing 76 percent of the total loan portfolio by dollar volume. Residential real estate loans were also reviewed as these loans represent the next most significant loan product by dollar volume at 12 percent of the portfolio.

We selected a statistically valid sample of 60 business loans originated or renewed from January 1, 2008 through August 1, 2011. The sample was used to determine lending in the AA, gross revenue, and the geographic distribution among different census tracts (CTs). Our analysis also included 86 owner-occupied residential real estate loans, representing 100 percent of such loans reported on the bank's Home Mortgage Disclosure Act (HMDA) Loan Application Register for 2008, 2009 and 2010.

**DESCRIPTION OF INSTITUTION**

CNB is a full service bank headquartered in Bellaire, Texas, in Harris County. The bank opened for business on June 17, 2002. The bank's main branch is located at 5123 Bellaire Boulevard with a drive-in location at 5235 Bellaire Boulevard. Both of these facilities are located in an upper-income CT. Banking hours are reasonable with regular lobby hours Monday through Thursday and extended lobby hours on Friday. The main office and drive-in also offer banking services on Saturday. CNB opened a branch on April 26, 2007 in a middle-income CT located at 4601 W. Broadway in Pearland, TX. This branch was sold on July 15, 2011.

Competition for banking products and services in the bank's market area is intense. CNB's AA includes a substantial number of banks and financial institutions. The bank offers a full range of standard credit and deposit products to meet the needs of the community it serves, including remote deposit capture services and Internet banking.

We contacted local community leaders from both Harris and Fort Bend County to inquire about the economic conditions and credit needs of the AA. Both contacts were not aware of any credit needs that were not being met in the community.

As of March 31, 2011, CNB had assets of \$192 million with a Tier One Leverage Capital ratio of 8.21 percent. The bank's loan portfolio consists primarily of residential real estate and commercial lending which is centered in commercial real estate. Total loans outstanding as of March 31, 2011 were \$93 million, representing 48% of total assets. The bank received a Satisfactory rating at the completion of the last CRA examination dated February 14, 2005. There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs of the AA.

*Please refer to the CNB's Public File for more information about the institution.*

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

The AA consists of 216 contiguous CTs in portions of Harris County and Fort Bend County that the bank feels it can reasonably serve through their location in Bellaire, TX. Prior to the sale of the branch in Pearland, TX, the bank also selected reasonable portions of Brazoria and Galveston counties to serve through that branch. Of the 216 CTs in the AA during this assessment period, 13 (6 percent) are low-income, 42 (20 percent) are moderate-income, 61 (28 percent) are middle-income, 98 CTs (45 percent) are upper-income, and 2 CTs (1 percent) are not designated tracts.

### **Harris County**

Harris County is the third largest county in the United States and is home to Houston, TX, the country's fourth largest city. According to 2010 U.S. Census Bureau information, the county had a population of approximately 4.1 million, which represents growth of 20.3 percent over the past 10 years. The county's unemployment rate as of 2010 was 8.5 percent. As of 2009, median household income within the county was \$50,577, and 17.1 percent of the population was below the poverty level. The median value of owner-occupied housing units during the period of 2005 to 2009 was \$130,100.

Houston hosts the annual Houston Livestock Show and Rodeo, the largest rodeo in the world which attracted over 2 million visitors in 2010. An economics professor from the University of Houston estimated that in 2010, the Rodeo created over 7,000 full-time equivalent jobs and generated approximately \$144 million in economic stimulus to the Houston area. Houston is also home to the Texas Medical Center, the largest medical center in the world. As of 2000, the center directly employed 61 thousand people and had an economic impact on the region of approximately \$6 billion. Additionally, 23 Fortune 500 companies are based in Houston, the second highest level in the country

behind New York City. Top employers in the area are the Texas Medical Center, Wal-Mart, Kroger, Exxon, HEB, and Shell, each of which has between 11,000 to 61,000 employees in Houston.

There have also been changes in the Houston area during this assessment period that will have a negative impact on the local economy. Economic conditions nationwide have forced state and local governments to cut education budgets. The Houston Independent School District (ISD) is expected to cut approximately 1,200 school-based employees such as teachers, librarians, and nurses. An additional 282 administrative positions are also likely to be cut. Continental Airlines relocated headquarters from Houston to Chicago, resulting in the layoff of 500 Houston employees in 2011. At this time, it is unknown how many of the remaining 3,000 Continental employees in Houston will retain their jobs. Finally, the end of the NASA shuttle program will have a significant impact on local employment. According to NASA, 16,600 people had jobs in Houston last year because of the Johnson Space Center. NASA had an economic impact on Texas of \$6.5 billion, with \$2 billion stemming directly from the space shuttle program. The President of the Bay Area Houston Economic Partnership was reported as stating that the Houston area had already lost about 2,000 space shuttle jobs and could lose another 1,800 after the final shuttle mission, which took place in July 2011.

### **Fort Bend County**

Fort Bend is adjacent to southwest Harris County, and is among the most affluent and fastest growing areas in the Houston MSA. Sugar Land is the largest city in Fort Bend County and is considered a suburb of Houston. According to 2010 U.S. Census Bureau data, the county has a population of 585,375, which reflects growth of 65.1 percent since 2000. The median household income is \$80,548 and the median value of owner-occupied housing units is \$168,600. As of 2010, the unemployment rate for the county was 8.0 percent, and 7.5 percent of the population was below the poverty threshold. The CTs in this part of the AA are the portion of the county that the bank believes can be reasonably served.

The five largest employers in Fort Bend County are Fort Bend ISD, Lamar Central ISD, Fluor Corporation, Fort Bend County, and Schlumberger Technology Corporation. These employers account for over 19,000 jobs in Fort Bend County. As with Harris County, Fort Bend County has experienced job loss within its school district. Total layoffs within the Fort Bend ISD during 2010 and 2011 are approaching 1,000.

### **Brazoria County**

Brazoria County borders the southernmost portion of Harris County as well as the Gulf of Mexico, and is included in the Houston MSA. The bank chose CTs in the northern portion of the county to serve through operating a branch in Pearland, TX. Pearland is a suburb of Houston and is Brazoria County's largest city, with an estimated population of 68,305 in 2006. According to 2010 U.S. Census Bureau data, the county has a population of 313,166 and has grown 29.5 percent in the past 10 years. Median household income in 2009 was \$66,516. The unemployment rate during 2010 was 9.0 percent, and 10 percent of its population is below the poverty level.

The largest employers in the county are The Dow Chemical Company, Texas Department of Criminal Justice, Alvin ISD, Pearland ISD, and Brazosport ISD. Combined, they employ over 13,000 individuals. With the sale of the Pearland branch in July 2011, the bank has chosen to remove this portion of their AA.

### **Galveston County**

Galveston County is east of Brazoria County and borders southeastern Harris County and the Gulf of Mexico. The bank chose CTs in the northwest portion of the county to include in their AA which they felt they could reasonably serve with the Pearland Branch. Based on 2010 U.S. Census Bureau data, the county has a population of 291,309, reflecting growth of 16.5 percent over 10 years. The unemployment rate in Galveston County of 9.2 percent is slightly higher than in neighboring counties. The 2010 median household income was \$55,883, and 14.7 percent of the population is below the poverty level. League City has a population of 65,351 and surpassed Galveston in 2005 as the largest city in the county. The Galveston County economy is greatly affected by tourism, and is also home to several educational institutions. The University of Texas Medical Branch is the county's largest employer, employing 15,000 people. Other large employers in the county include Moody Gardens, Inc., Wal-Mart, Kroger, and local school districts. The bank has also chosen to remove this portion of their AA due to the sale of the Pearland branch.

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

### **Loan-to-Deposit (LTD) Ratio**

CNB's quarterly LTD ratio averaged 45 percent since the last CRA examination. The quarterly LTD ratio for four banks of similar size in the AA averaged 60 percent. While the bank's LTD ratio is lower than the peer group, it is reasonable given the high level of competition in the AA and the low loan demand in the immediate vicinity of the bank's main branch. There are a substantial number of banks and branches of large banks throughout the city of Bellaire. This directly impacts the bank's competition for loans in the bank's AA. CNB's LTD ratio has shown an increasing trend since the last CRA examination. The quarterly LTD ratio for the bank has remained above 50 percent since December 2008. As of March 31, 2011 the bank's LTD ratio is 51.81 percent.

### **Lending in Assessment Area**

A majority of loans were originated in the AA, and the overall level of lending in the AA meets the standards for Satisfactory performance. As noted in the table below, approximately 64 percent of the number of loans and 68 percent of the dollar amount of loans were originated in the AA.

<b>Table 1 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	57	66.28	29	33.72	86	2,168	68.33	1,005	31.67	3,173
Commercial	37	61.67	23	38.33	60	6,738	67.96	3,177	32.04	9,915
Totals	94	<b>64.38</b>	52	35.62	146	8,906	<b>68.05</b>	4,182	31.95	13,088

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

The distribution of loans reflects a reasonable penetration among households and families of different income levels and businesses of different sizes, and meets the standard for Satisfactory performance. We reviewed a sample of business and residential real estate loans originated in the AA. We placed particular emphasis on business lending and the bank’s performance in this area as it is the primary product.

**Commercial Loans**

Lending to small businesses with gross annual revenues equal to or less than \$1 million exceeds the characteristics of the AA. We compared the bank’s loan originations to information about the size of businesses for each AA according to Dun and Bradstreet information. For the 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 effect on the percentage of the dollar amount of loans. Therefore, the percentage of the number of loans was assigned greater weight in our evaluation.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.68	4.01	19.31	100
% of Bank Loans in AA by #	<b>78.38</b>	18.92	2.70	100
% of Bank Loans in AA by \$	<b>57.44</b>	42.36	0.20	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 2010 median family income for the AA was \$65,100. CNB’s distribution of loans is reasonable overall as it slightly exceeds the AA characteristics for low-income borrowers, although it is slightly less than the AA characteristics for moderate-income borrowers, as shown in the table below.

Table 2B - Borrower Distribution of Residential Real Estate Loans in Assessment Area								
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
Residential	6.73	<b>7.02</b>	22.40	<b>17.54</b>	28.78	19.30	42.09	56.14

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

### Geographic Distribution of Loans

The distribution of residential real estate and commercial loans reflects a reasonable penetration among geographies of different income categories. We compared the geographic location of owner-occupied residential real estate lending to the percentage of owner-occupied housing within the various CT categories according to U.S. Census Bureau information. We also compared the geographic location of commercial loans to the percentage of businesses in the various CTs according to Dun and Bradstreet data.

We placed significant emphasis on business lending and the bank’s performance in this area as it is the primary product.

### Commercial Loans

CNB’s geographic distribution of commercial loans is more than reasonable overall as it significantly exceeds the AA characteristics for low-income borrowers, and is slightly less than the AA characteristics for moderate-income borrowers, as shown in the table below.

Table 3A - Geographic Distribution of Loans to Businesses in Assessment Area								
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
Commercial	4.99	<b>16.67</b>	16.60	<b>12.50</b>	22.68	25.00	55.62	45.83

Source: Dun and Bradstreet data; Census tract was unavailable for 0.11% of AA businesses.

### Residential Real Estate

CNB’s geographic distribution of owner-occupied residential loans is more than reasonable overall as it exceeds the AA characteristics for housing in low-income CTs, although it is less than the AA characteristics for housing in moderate-income CTs, as shown in the table below.

<b>Table 3B - Geographic Distribution of Residential Real Estate Loans in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Residential	0.99	<b>1.75</b>	14.06	<b>5.26</b>	29.17	38.60	55.78	54.39

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

### 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.