
PUBLIC DISCLOSURE

May 14, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lone Star Bank, N. A.
Charter Number 20016
8117 East Freeway
Houston, Texas 77029

Office of the Comptroller of the Currency

Southwestern District
1600 Lincoln Plaza
500 North Akard Street
Dallas, Texas 75201-3394

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 Community Reinvestment Act (CRA) performance of Lone Star Bank, N. A., prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 18, 1996. 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".

Lone Star Bank, N.A. originates loans to borrowers throughout its assessment area. A majority of these loans originated are within the assessment area. The bank's loan to deposit ratio has averaged 62% for the past four quarters. The bank's record of lending to borrowers of different income levels, including low- and moderate-income individuals, is reasonable.

The following table indicates the performance level of Loan Star Bank, N.A., with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Loan Star Bank, N.A.</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints		X	

DESCRIPTION OF INSTITUTION

Lone Star Bank, N.A. is an independently owned \$58 million bank which operates from three offices, two in Houston and one in Highlands, Texas. The bank also services customers with two ATMs. The McCarty and Normandy branches are located in moderate-income areas and the Highlands branch is located in an upper income area. Lone Star Bank offers traditional banking services and lending products. Lending activity is centered in the following loans: commercial and industrial (36%), residential real estate (13%), other real estate related (20%) and loans to individuals (29%). There are no legal impediments which impair the bank's ability to meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

Lone Star Bank's assessment area is comprised of 60 census tracts within Harris and Chambers Counties. The census tracts are comprised of the following income levels: two low income (3%), twenty-five moderate income (42%), twenty-six middle income (44%) and six upper income (10%). The majority of these census tracts are within the Houston Metropolitan Statistical Area (MSA). The city of Houston is the nation's fourth largest and a major cultural center of the southwestern United States. Major employment opportunities are associated with the energy and computer industries, and manufacturing. The major employers in the bank's assessment area include small manufacturing, petrochemical plants, school districts and the Houston Ship Channel.

The Houston MSA has a population in excess of 3 million people, with 13% living below the established poverty level. The population of the assessment area is 268 thousand individuals. The HUD MSA Median family income for Houston in 1995 is \$45,300. The HUD Median family income for the bank's assessment area is \$31,395. Median housing value for the area is \$45 thousand and the median age of the housing stock is 29 years. Owner occupied housing is 57% of the total. Rental occupied housing is 31% of the total.

The market for financial services is extremely competitive as there are several other similarly situated financial institutions in the assessment area. Lone Star Bank's primary competitors consist of the following: Woodforest National Bank, Prime Bank, Highlands State Bank, Channelview Bank, and numerous branches of multi-billion dollar financial institutions.

The bank has identified small business loans, and general consumer loans as the assessment area's primary credit needs. Two community contacts with civic and

community organizations indicate the need for low income housing related lending for the immediate assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Lone Star Bank actively meets the identified credit needs of its assessment area. The bank's loan to deposit ratio averaged 62% for the past four quarters. Lone Star Bank's ratio exceeds that of all other local institutions. As of December 30, 1995, the bank's ratio was 62.0% compared to a peer ratio of 53.4%.

An internal analysis prepared by the bank reflected that 52% of the number and 68% of the dollar volume of outstanding loans were within the bank's assessment area. Examiners randomly sampled ten consumer loans and ten commercial loans. This analysis supported the conclusion that the majority of the lending is within the bank's assessment area. Loan applications are solicited from a cross-section of income levels, with a proportionate number from low-and moderate- income families.

The sample of commercial loans (the bank's primary business focus) indicated that 60% of the loans originated were in the bank's assessment area. Ninety percent (90%) of the commercial loans were extended to small businesses with gross revenues below \$1 million. The gross revenues ranged from \$81 thousand to \$838 thousand and are representative of the businesses within the bank's assessment area.

Of the consumer loans sampled, 30% were to borrowers within the bank's assessment area with 80% extended to individuals with low-and- moderate income levels.

Loans made outside of Lone Star Bank's assessment area result, in part, from the \$3.6 million portfolio of consumer loans generated through a major tractor dealership in Highlands, Texas. A sample of nine tractor loans were reviewed because these loans are a major line of business for the bank. Our sample revealed that, in most cases, the loans made for tractor purchases are not to borrowers who reside in the boundaries of the bank's assessment area. Only ten percent of the tractor loans were to borrowers within the bank's assessment area. However, these loans were to customers of varying income levels, including low-and moderate- income individuals. The average tractor loan by dollar volume is \$10 to \$12 thousand. The average income levels ranged from \$21 thousand to \$99 thousand.

An internal analysis of loans (home improvement, home purchase, and refinance loans) reported on the 1995 Home Mortgage Disclosure Act (HMDA) Lar was performed by the bank. This analysis of Loan Star Bank's lending by number of originations reflects

a reasonable dispersion throughout the bank's assessment area. The bank originated 51 HMDA loans in 1995, of which 27 (53%) were to customers within the bank's assessment area and represented a cross-section of all income levels. The table below shows the distribution of HMDA loan originations by income level:

Distribution of HMDA Loan Originations
Within the Assessment Area
For 1995

Income Category	# of Loans	%	\$ Volume of Loans (000's)	%
Low Income	2	7.41%	21	3.18%
Moderate Income	6	22.22%	133	20.12%
Middle Income	13	48.15%	195	29.50%
Upper Income	6	22.22%	312	47.20%
Total	27	100.00%	661	100.00%

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

Lone Star Bank is in compliance with applicable anti-discrimination laws and regulations. We noted no practices intended to discourage potential borrowers from applying for credit at the bank. During this evaluation period, the bank received only one consumer complaint regarding CRA performance. Management was very responsive and ensured that the complaint was resolved in an appropriate and expeditious manner.