



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 14, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 24303**

**5123 Bellaire Boulevard
Bellaire, TX 77401**

**Comptroller of the Currency
Houston Field Office
1301 McKinney Street, Suite 3410
Houston, TX 77010**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory. The factors and data supporting this rating are as follows:

- A majority of loans, 63% in number and 64% in dollar volume, are made in Community National Bank's (Community NB) assessment area (AA).
- The distribution of loans to borrowers of different incomes reveals a reasonable penetration of loans to low- and moderate-income borrowers.
- The geographic distribution of loans reveals that loans have been made in each income level census tract. The penetration of consumer and residential real estate loans in low- and moderate-income census tracts reflect a level that is lower than area demographics but reasonable in light of mitigating circumstances. The bank therefore, meets the standards for satisfactory performance.
- The bank is responsive to community development needs of the AA through the origination of loans to refinance affordable housing, schools, and shopping centers that serve low- and moderate-income families.
- The loan-to-deposit ratio is low in comparison to other banks but reasonable given the length of time Community NB has been open and the credit needs of the AA. Community NB's loan-to-deposit ratio has averaged 25.2% for the 11 quarters since the bank's opening. The loan-to-deposit was 31.9% as of December 31, 2004.
- No consumer complaints regarding the bank's CRA performance were received during this evaluation period.

DESCRIPTION OF INSTITUTION

Community National Bank (Community NB) is \$111 million full service bank located in Bellaire, Texas. The main bank is located at 5123 Bellaire Boulevard with a drive in location at 5235 Bellaire Boulevard. Both servicing facilities are located in an upper-income census tract. 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 services on Saturday. Community NB offers a variety of loan and deposit products to help meet the credit needs of its community. In addition, the bank offers Internet based banking services including account inquiries, intrabank transfers, and bill pay services.

Primary loan types include consumer, commercial, and commercial real estate. Total loans outstanding as of December 31, 2004, amounted to \$33 million, which represent 29.7% of total assets. The following table reflects a detailed breakdown of Community NB's loan portfolio as of December 31, 2004.

LOAN CATEGORY	\$(000)	%
Consumer Loans	7,982	24.04
Commercial Real Estate	7,891	23.77
Commercial Loans	7,284	21.94
Residential Real Estate	4,317	13.00
Construction and Land Development	5,711	17.20
Other	54	.16
TOTAL	33,197	100%

The bank operates in a highly competitive market. Competition for banking products and services is strong. The community of Bellaire contains several branches of regional and multinational corporations as well as branches of other financial institutions.

There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its assessment area (AA). This is Community NB's first Community Reinvestment Act (CRA) examination since it opened on June 17, 2002.

During this examination, we contacted a local community leader to inquire about the economic conditions and credit needs of the AA. The contact was not aware of any credit needs that have not been addressed. Additionally, the contact spoke highly of all financial institutions operating in the area.

DESCRIPTION OF COMMUNITY NATIONAL BANK OF BELLAIRE ASSESSMENT AREA

The City of Bellaire is a steadily growing urban area located in one of the more desirable areas of the Houston Metropolitan Statistical Area (MSA). The Houston MSA covers approximately 10 counties and has a total population in excess of 4 million. Bellaire is an established affluent area with a growing population. The continuous increase in household income is a strong indicator of the growing wealth. According to 2000 Census information, the population of Bellaire was 15,642.

Community NB has defined its assessment area (AA) is defined as the Northern Boundary - Interstate 10, the Southern Boundary - Highway 6, the Eastern Boundary - Highway 288, and the Western Boundary - Highway 6. The bank's designated AA consists of 192 contiguous census tracts of which 168 census tracts are in Harris County and the remaining 24 in Fort Bend.

The AA includes of 13 low-income tracts, 40 moderate-income tracts, 56 middle-income tracts, 81 upper tracts, and 2 non-designated tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income areas. Specific demographic and economic data for this AA is listed in the table below:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	246,852
Number of Households	408,694
<i>Geographies</i>	
Number of Census Tracts/BNA	192
% Low-Income Census Tracts/BNA	6.77%
% Moderate-Income Census Tracts/BNA	20.83%
% Middle-Income Census Tracts/BNA	29.17%
% Upper-Income Census Tracts/BNA	42.19%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$62,716
2000 HUD-Adjusted MFI	\$59,100
<i>Economic Indicators</i>	
Unemployment Rate	3.00%
2000 Median Housing Value	\$138,657
% of Households Below Poverty Level	11.00%

Harris County

Harris County is the third largest county in the United States with a population of over 3.4 million residents, and it covers 1,729 square miles. Houston is the largest city in the county and the fourth largest city in the United States. Houston is home to the Houston Livestock Show and Rodeo, the largest rodeo in the world attracting 1.8 million visitors per year. Houston also has the largest medical center in the world, the Texas Medical Center. Its economic impact is \$10 billion annually, 52 thousand people work in its facilities, and the center has 21 million square feet of space. Also, eighteen Fortune 500 companies and more than five thousand energy related firms are located in the city that is considered by many as the “Energy Capital” of the world. The Port of Houston is the nation’s largest in international tonnage and second in total tonnage. Major employers include Continental Airlines, Administaff, Halliburton, Wal-Mart Stores, Exxon Mobil, Kroger Company, Memorial Hermann Healthcare System, and The University of Texas Medical Branch, all with more than 13 thousand employees.

Fort Bend County

Fort Bend is adjacent to southwest Harris County, and it is one of the most affluent and fastest growing areas in the Houston MSA. According to 2000 U.S. Census Bureau, the entire county has a population of 354,452 persons. The median household income is \$62,831. Sugar Land is the largest city, and it is so close to Houston that it could be considered a suburb. The census tracts in this designated part of the AA is the part of the county that the bank believes can be reasonably served.

The median value of owner-occupied housing is \$115 thousand. A number of planned communities are announced, under construction, or nearly complete with an average new home sales price of \$183 thousand. Many small and large financial institutions are in the county, and competition is intense. Major employers include Fort Bend Independent School District, Fluor Corporation, Unolocal Corporation, Schlumberger Company, Texas Department of Criminal Justice, and Fort Bend County. All of these employers have more than two thousand employees.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

In analyzing the bank’s loan-to-deposit (LTD) ratio, we selected several peer banks for comparison. In the immediate area, the bank competes with many branches of much larger banks. Community NB is the only independent community bank within the City of Bellaire. We reviewed the bank’s initial strategic plan at the time of charter application and confirmed with bank management that these banks were still considered for peer comparison. The bank identified several competitors that were similar in clientele, size, management, and cost structure. Of those identified, we chose three banks for comparative purposes. The location, asset size, and LTD ratio for Community NB and three competing banks are listed in the following table:

Institution	City	Assets (\$000) 12/31/04	Average LTD Ratio % (*)
Community National Bank	Bellaire	\$111,680	25.2%
Redstone Bank, N.A	Houston	\$102,108	63.3%
Southwestern National Bank	Houston	\$158,026	86.9%
The State Bank of Texas	Houston	\$93,741	63%

*The average LTD for the three comparable banks and CNB is for the period from December 1999 to December 2004

The average LTD ratio of 25.2 % coupled with the unique characteristics and operating environment of the bank meet the standards for satisfactory performance. Although, the LTD is low, the lending practices of the bank reveal appropriate servicing to their AA and such performance is consistent and reasonable given loan demand.

A significant portion of the population in the immediate area surrounding the bank consists of retired individuals. Community NB offers a unique program called the Community Club for customers 50 years of age or older. Members of this organization are primarily retired community members seeking the opportunity to network and volunteer in the community. Members receive special benefits such as preferred certificates of deposit (CD) rates, loan rates, and free banking services. This attracts additional deposits from the retired community and impacts the banks LTD ratio.

Members of the Community Club hold approximately \$40 million or 40% of the banks total deposits. At December 31, 2004 the banks LTD ratio was 31.9%. However, by adjusting the LTD ratio for demand deposits accounts and CD accounts held by Community Club members the ratio increases to 50.2%. The level is reasonable and in line with the levels for peer banks.

Lending in Assessment Area

A sample of loans originated since the last examination was reviewed to calculate the percentage of loans (by number and dollar volume) located within the assessment area. The bank had a detailed analysis performed by an external consulting firm. A summary in the report revealed that 64.3% (576 of 896) of the total number of loans and 58.4% (\$18,081 thousand of \$30, 973 thousand) of the portfolio loan dollars are located within the AA. For 2004 the analysis revealed that 65.3% of the number and 57.8% of new loan dollars originated within the assessment area.

Community NB meets standards for satisfactory performance for lending within its AA both in number and in dollar volume. Our review included a sample of 60 loans (consumer, commercial, and residential RE) and revealed that 63.3% in number and 63.8% in dollar volume, are made in Community NB's AA. Performance for each category reviewed demonstrated a majority of the loans are made in the AA as detailed in the following table:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	13	72.2	5	27.8	18	369	77.5	107	22.5	476
Consumer	10	52.6	9	47.4	19	199	60.7	129	39.3	328
Residential RE	15	65.2	8	34.8	23	782	59.6	529	40.4	1,311
Totals	38	63.3	22	36.7	60	1,350	63.8	765	36.2	2,115

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

Overall, performance for lending to borrowers of different incomes and businesses of different sizes is adequate and meets the standards for satisfactory performance. Consumer, residential real estate and commercial lending represent primary lending focuses. We reviewed all these types of loans and this analysis had a significant impact on assessing the bank's performance. Income levels are based on the Housing & Urban Development (HUD)-updated median family income that was \$59,100 for the AA.

Residential real estate lending to persons of different incomes exceeds the standards for satisfactory performance with 53.3% of the number of loans extended to low- and moderate-income borrowers. Residential real estate lending to low-income families is higher than the demographic comparator that was 39.2%.

Borrower Distribution of Residential Real Estate Loans								
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 RE	22.4	40.0	16.8	13.3	17.1	20.0	43.7	26.7

The bank's lending to businesses of different sizes exceeds the standards for satisfactory performance. The sample of business loans reviewed found 69.2% of the number and 80.8% of the dollar volume of loans were extended to businesses with gross revenues of less than \$1 million per year.

Borrower Distribution of Loans to Businesses/Farms				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	60.7%	6.6%	32.7%	100%
% of Bank Loans in AA by #	69.2%	30.8%		100%
% of Bank Loans in AA by \$	80.8%	19.2%		100%

Consumer loans to low- and moderate-income households are substantially lower than the demographic comparator. The bank extended 10% in number of the consumer loans to low- and moderate-income borrowers. Consumer lending to low- and moderate-income households is lower than the demographic comparator that was 40%. Bank management explained that there is a lower level of consumer lending in the area because most of the borrowers in the area are savers versus borrowers.

Borrower Distribution of Consumer Loans								
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	22.2	0.0	17.8	10.0	18.1	0.0	41.8	90.0

Geographic Distribution of Loans

Overall, geographic distribution of loans meets standards for satisfactory performance. The geographic distribution of loans was analyzed by reviewing the distribution of 60 loans.

Geographic distribution of residential real estate loans to low- and moderate-income areas is the reasonable but below the AA standards with 6.7% of loans in low- and moderate-income census tracts. This is reasonable in comparison to the % of AA owner occupied housing 16.9%. Our analysis reflected the following:

Geographic Distribution of Residential Real Estate Loans								
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 RE	1.2	0.0	15.7	6.7	32.3	40.0	50.8	53.3

The bank's record of lending to small businesses of various sizes reflects an adequate geographic dispersion throughout the bank's AA with 38.5% of the number of loans in low-and moderate-income tracts compared to the % of AA businesses in low-and moderate-income census tracts of 27.1 %.

Geographic Distribution of Loans to Businesses/Farms								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	5.5	30.8	21.6	7.7	17.4	15.4	55.4	46.1

Geographic distribution of consumer loans compared with percent AA households. The bank meets standards for satisfactory performance in geographic distribution of consumer loans to low- and moderate-income households. The bank's loans are below the percentage of households in low- and moderate-income census tracts with 10% of the number of loans in low- and moderate-income census tracts compared to the percentage of AA Households in low- and moderate-income census tracts of 31.0%.

Geographic Distribution of Consumer Loans								
Census Tract 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	7.1	0.0	23.9	10.0	30.6	10.0	38.3	80.0

Responses to Complaints

During this evaluation period, Community NB did not receive any consumer complaints that relate to CRA performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices