

PUBLIC DISCLOSURE

11/18/2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Encore Bank
Docket #: 05128**

**1220 Augusta Dr.
Houston, TX 77057**

**Office of Thrift Supervision
Midwest Region
225 E. John Carpenter Freeway, Suite 500, Irving, TX 75062-2326**

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.

Institution (continued)

Lending, Investment, Service Test Table

The following table indicates the performance level of Encore Bank with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Encore Bank 11/18/2002		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs to Improve			
Substantial Noncompliance			

Institution (continued)

approximately \$1.017 billion, of which 2,806 loans (28 percent) totaling approximately \$366.2 million (36 percent) were located within the current four defined assessment areas, the Houston MSA, the Fort Myers – Coral Cape MSA, the Tampa – St. Petersburg MSA and the Boston MSA, along with the three former assessment areas, the St. Louis MSA, the Kansas City MSA, and the Atlanta MSA.

The institution's overall lending to low- and moderate-income borrowers in the Houston and Boston MSAs is good and comparable to that of other lenders, while the overall lending to low- and moderate-income borrowers in the Florida assessment areas is low and is attributable to a limited market presence.

The geographic distribution of loans in the Houston MSA, the Tampa – St. Petersburg MSA and the Boston MSA is reasonable while the lending in low- and moderate-income tracts in the Fort Myers – Cape Coral MSA is poor.

Community Development Lending

In October 2002, Encore Bank granted a \$2.630 million loan to a non-profit corporation (Corporation). This Corporation was established with guidance from the Office of the Comptroller of the Currency with its primary goal as ensuring the safety, security and protection of nursing home and HUD senior housing residents against all aspects of crime.

Investment Test

Since the previous CRA examination, Encore Bank purchased qualifying investments totaling approximately \$5.5 million. Investments primarily consist of either FHLMC or FNMA mortgage-backed securities, CRA mutual funds, certificates of deposit in Community Development Financial Institutions (CDFIs) or minority-owned financial institutions, and donations of office equipment and personal computers.

Service Test

The delivery system is accessible to essentially all portions of the assessment areas. Business hours and services do not vary in a way that inconveniences any portions of the assessment areas. Since the previous CRA examination, Encore Bank sold all of its branch offices in Kansas City, Kansas, St. Louis, Missouri, and Atlanta, Georgia, as a part of the overall business strategy to restructure the institution's balance sheet.

State

Summary (continued)

Encore Bank – 1999	11%	58%	12%	19%	
HMDA Lenders – 1999	2%	11%	35%	52%	(-)
Encore Bank – 2000		5%	30%	65%	
HMDA Lenders – 2000	2%	12%	36%	51%	(-)
Encore Bank – 2001	2%	11%	30%	57%	
HMDA Lenders – 2001	2%	10%	34%	54%	(-)
Encore Bank – 2002*		2%	22%	76%	
Encore Bank – Average	3%	15%	25%	57%	

* Six-month period ended June 30, 2002.

(-) Less than 0.5 percent.

Community Development Lending

In October 2002, Encore Bank granted a \$2.630 million loan to a non-profit corporation (Corporation), which was established with guidance from the Office of the Comptroller of the Currency. This Corporation’s primary purpose is threefold:

- To ensure the safety, security and protection of nursing home and HUD senior housing residents against all aspects of crime;
- To provide an avenue for the banking community to receive qualified CRA credit through participation; and
- To provide private trusts and foundations with a risk-free way to fulfill their missions by supporting crime-free living environments for residents of these facilities.

The Corporation currently serves approximately 4,800 facilities in 47 states. The Corporation utilized the loan proceeds to purchase an investment grade debenture, the collateral, which fully secures the Encore Bank’s loan. Encore Bank will receive one-half of the effective yields of the purchased investment. The Corporation will use the remaining one-half of the effective yield to operate the crime prevention programs for the benefit of all nursing homes and their residents. These facilities will receive this program free of charge with no strings attached during the term of the loan.

The crime prevention program consists of providing personal lock boxes - safe deposit boxes for use by the residents and/or family members of a facility and a completely anonymous, around the clock tipline call center.

State

Summary (continued)

Many facilities in the Houston MSA assessment area will receive \$1.430 million of the total loan amount.

Investment Test

The level of investments is low, but reasonable. Since the previous CRA examination, Encore Bank made the following investments totaling \$1,448,653:

- Purchased one FHLMC mortgage-backed security totaling \$762,653. The secured collateral for this security is a pool of single-family dwellings located in low- and moderate-income census tracts in the Houston MSA assessment area;
- Invested \$634,000 in a CRA Mutual Fund that holds a mortgage-backed security that is collateralized with an affordable housing project located in this assessment area and;
- Purchased a \$50,000 certificate of deposits in a financial institution that primarily facilitates lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development.

Other investments include donations, contribution of office and computer equipment, to charitable organizations locate in this assessment area. The estimated value of these assets is \$2,000.

Service Test

In addition to the home office, Encore Bank operates two branch offices in the Houston MSA. These two branch offices are located in upper-income census tracts. Each of the offices has one ATM. Since the previous CRA examination, Encore Bank opened one branch office in this assessment area.

Customer service hours and services are comparable to competing financial institutions. Branch office hours of operations and services do not vary in a way that inconveniences any portions of the assessment area, particularly low- and moderate-income geographies or individuals. In addition, Encore Bank's services are available by telephone, computer and mail. While Encore Bank does not charge a fee for bank-by-mail, Internet banking, and electronic transfer accounts, it does charge a minimal fee for bill paying services. There is no charge for the use of the proprietary ATMs. The usage of non-proprietary ATMs is free of charge up to and including the waiving of surcharges of up to \$1.50 per transaction.

State

Metropolitan Area (continued)

(for metropolitan areas with some or all assessment areas reviewed using the examination procedures)

In December 2002, Encore Bank purchased a package of loans, of which 18 loans were to low- and moderate-income borrowers, totaling \$1.9 million. Three of these loans, totaling approximately \$486,000 were in moderate-income census tracts.

Community Development Lending

In October 2002, Encore Bank granted a \$2.630 million loan to a non-profit corporation (Corporation), which was established with guidance from the Office of the Comptroller of the Currency. This Corporation's primary purpose is threefold:

- To ensure the safety, security and protection of nursing home and HUD senior housing residents against all aspects of crime;
- To provide an avenue for the banking community to receive qualified CRA credit through participation; and
- To provide private trusts and foundations with a risk-free way to fulfill their missions by supporting crime-free living environments for residents of these facilities.

The Corporation currently serves approximately 4,800 facilities in 47 states. The Corporation utilized the loan proceeds to purchase an investment grade debenture, the collateral, which fully secures the Encore Bank's loan. Encore Bank will receive one-half of the effective yields of the purchased investment. The Corporation will use the remaining one-half of the effective yield to operate the crime prevention programs for the benefit of all nursing homes and their residents. These facilities will receive this program free of charge with no strings attached during the term of the loan.

The crime prevention program consists of providing personal lock boxes - safe deposit boxes for use by the residents and/or family members of a facility and a completely anonymous, around the clock tipline call center.

Many facilities in the Fort Myers – Cape Coral MSA assessment area will receive \$600,000 of the total loan amount.

Investment Test

The level of investments is reasonable. Since the previous CRA examination, Encore Bank made qualifying investments totaling \$723,450:

State

Metropolitan Area (continued)

(for each metropolitan area where no assessment areas were reviewed using the examination procedures)

Community Development Lending

In October 2002, Encore Bank granted a \$2.630 million loan to a non-profit corporation (Corporation), which was established with guidance from the Office of the Comptroller of the Currency. This Corporation's primary purpose is threefold:

- To ensure the safety, security and protection of nursing home and HUD senior housing residents against all aspects of crime;
- To provide an avenue for the banking community to receive qualified CRA credit through participation; and
- To provide private trusts and foundations with a risk-free way to fulfill their missions by supporting crime-free living environments for residents of these facilities.

The Corporation currently serves approximately 4,800 facilities in 47 states. The Corporation utilized the loan proceeds to purchase an investment grade debenture, the collateral, which fully secures the Encore Bank's loan. Encore Bank will receive one-half of the effective yields of the purchased investment. The Corporation will use the remaining one-half of the effective yield to operate the crime prevention programs for the benefit of all nursing homes and their residents. These facilities will receive this program free of charge with no strings attached during the term of the loan.

The crime prevention program consists of providing personal lock boxes - safe deposit boxes for use by the residents and/or family members of a facility and a completely anonymous, around the clock tipline call center.

Many facilities in the Tampa – St. Petersburg MSA assessment area will receive \$600,000 of the total loan amount.

Investment Test

The level of investments is reasonable. Since the previous CRA examination, Encore Bank made qualifying investments totaling \$1,556,591, as shown below:

- Purchased two FHLMC mortgage-backed security totaling \$1,201,591. The secured collateral for these securities is a pool of single-family dwellings located in low- and