

PUBLIC DISCLOSURE

July 14, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Gulf Coast Bank
Certificate Number: 18046**

**Gulfway at Magnolia
P. O. Box 716
Winnie, Texas 77665-0716**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1910 Pacific Avenue, 19th Floor
Dallas, Texas 75201**

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.

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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 **Gulf Coast Bank, Winnie, Texas**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **July 14, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The bank received an Outstanding rating at its previous August 24, 1998 CRA evaluation.

For this \$60 million bank headquartered in Winnie, Texas, examiners applied the five CRA performance factors applicable to small banks. The five performance factors considered for the evaluation were loan-to-deposit ratio, assessment area lending, geographic distribution, borrowers of different incomes, businesses of different sizes, and response to CRA-related complaints. Examiners reviewed samples of small business, consumer, and residential real estate loans to determine the bank's record of lending. The bank did not have qualified investments and services for review.

Also, there were no CRA-related complaints since the last examination; therefore, this factor played no part in the assignment of the rating. Each of the remaining factors supports the assigned rating. Individual conclusions for the factors reviewed are summarized below.

- The bank's average loan-to-deposit ratio for the past 23 quarters of 52 percent demonstrates satisfactory performance.
- A majority of sampled loan originations are within the bank's assessment area reflecting satisfactory performance.
- The bank has achieved an excellent geographic dispersion of loans within its assessment area given the designated assessment area, asset size of the bank, and location of the bank's office.
- Considering the loan products sampled and area demographics, the bank demonstrates a satisfactory performance level of lending to businesses of various sizes and borrowers of different income levels.

DESCRIPTION OF INSTITUTION

Gulf Coast Bank, Winnie, Texas is wholly owned by Southeast Bancorp, Inc., a one-bank holding company. The main office is located in Chambers County and one branch is located in Fannett in Jefferson County. In August 2002, Gulf Coast Bank opened a branch in Baytown, Texas. No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

Gulf Coast Bank's March 31, 2004, Consolidated Report of Condition and Income reports total assets of \$60,071,000 and total loans of \$31,111,000. Table 1 contains information about Gulf Coast Bank's loan portfolio mix as of March 31, 2004.

Table 1 – Loan Distribution as of March 31, 2004		
Loan Type	Amount \$(000)	Percent of Total Loans (%)
Construction and Land Development	2,859	9.2
Secured by Farmland	46	0.2
1-4 Family Residential	6,123	19.7
Multi-family (5 or more) Residential	406	1.3
Commercial	10,949	35.2
<i>Total Real Estate Loans</i>	<i>20,383</i>	<i>65.6</i>
Agriculture	2,159	6.9
Commercial and Industrial	5,283	17.0
Consumer	3,211	10.3
Other	75	0.2
Less: Unearned Income	0	0.0
Total Loans	31,111	100.0

Source: March 31, 2004 Consolidated Report of Condition and Income

The institution offers an array of deposit services, including demand deposits, NOW, MMDA, savings, time accounts, and Individual Retirement Accounts. The bank has an automated teller machine (ATM) located at each of its three banking offices. Only the ATM at the main banking office accepts deposits. The bank offers telephone and Internet banking with bill paying services. Various credit products are available, including consumer installment, agriculture, mortgage real estate, and various types of commercial loans. Gulf Coast Bank has adequate resources to meet the loan and deposit needs of its customers.

Gulf Coast Bank offers convenient lobby operations and drive-through services as outlined below.

Location	Lobby Hours	Motor Bank Hours	ATM
Main Office	8:30 a.m. - 4:00 p.m. Mon. - Thurs. 8:30 a.m.-6:00 p.m. Friday Lobby is closed on Saturday	8:30 a.m.-6:00 p.m. Mon. - Friday Motor Bank is closed on Saturday	1
Fannett	8:30 a.m. - 4:00 p.m. Mon. - Thurs. 8:30 a.m.-6:00 p.m. Friday Lobby is closed on Saturday	7:00 a.m.-6:00 p.m. Mon. - Friday 9:00 a.m.-12:00 p.m. - Saturday	1
Baytown	8:30 a.m. - 4:00 p.m. Mon. - Thurs. 8:30 a.m.-6:00 p.m. Friday Lobby is closed on Saturday	7:30 a.m.-6:00 p.m. Mon. - Friday 8:00 a.m.-1:00 p.m. - Saturday	1

DESCRIPTION OF ASSESSMENT AREA

Scope and Demographic Data

Gulf Coast Bank has a single assessment area which includes portions of Chambers, Harris, and Jefferson Counties. Chambers and Harris Counties are located in the 2003 Houston-Baytown-Sugar Land Metropolitan Statistical Area (MSA), and Jefferson County is in the 2003 Beaumont-Port Arthur MSA. The total assessment area meets CRA requirements and does not arbitrarily exclude low- and moderate-income areas.

Statistics based upon the 2000 U. S. Census depicts the assessment area with a population of 116,681. Table 2 below illustrates general demographic information of the bank's assessment area according to the 2000 U. S. Census.

Table 2 – Census Tract Data by Income Level						
Income Level	Number of Census Tracts	Percent of Census Tracts (%)	Population	Percent of Population (%)	Households	Percent of Households (%)
Low	0	0	0	0	0	0
Moderate	9	36	34,392	29	11,351	28
Middle	10	40	46,254	40	17,398	44
Upper	6	24	36,035	31	11,233	28
Total	25	100	116,681	100	39,982	100

Source: 2000 U.S. Census

Assessment Area

The economy of Chambers County is predominantly based on rice and soybean farming, cattle ranching, commercial fishing, and oil production. Some of the major employers in the assessment area are Anahuac Independent School District, Cedar Bayou Plant, Barbers Hill Independent School District, Warren Petroleum Group, County of Chambers, and the Medical Center of Winnie.

The City of Baytown, Texas, within Harris County, primarily consists of oil refineries and petrochemical industries. Baytown is heavily dependent on the oil industry and cargo-related industries due to access to the Port of Houston. Houston has one of the largest seaports in the country.

Jefferson County is located east of Houston, Texas, approximately one hour from downtown Houston. The economy is heavily dependent upon the energy industry, with more emphasis on refining and petrochemicals than on production. Chemicals and petrochemicals are poised to experience robust production over the long term. Despite sluggish population trends, Beaumont, Texas is ranked above average for long-term growth. The Port of Beaumont is ranked third in foreign trade and sixth in total trade by the U.S. Army Corps of Engineers.

The 2000 U. S. Census median family income (MFI) for Chambers County and Harris County, which are part of the Houston-Baytown-Sugar Land MSA, is \$59,100. The MFI for Jefferson County which is part of the Beaumont-Port Arthur MSA is \$46,800.

According to the Bureau of Labor Statistics as of June 2004, the unemployment rate for Chambers County is 6.8 percent, Harris County is 7.1 percent, and Jefferson County is 9 percent. The State of Texas unemployment rate for the same period is 6.5 percent.

Community Contact

Interviews with community leaders provided additional information regarding community credit needs, the condition of the local economy, and changes in area demographics. One local business community contact that was within the bank's assessment area was performed during the evaluation.

The community contact indicated that the economy was slow but stable. In the past, Winnie, Texas was heavily dependent on the agricultural industry. Now it is becoming a bedroom community of Beaumont, Texas and Port Arthur, Texas. The community contact explained that 50 percent of the residents commute to these cities for work. The interviewee stated that Gulf Coast Bank worked hard to meet the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Sampling Information

As depicted in Table 3 below, Gulf Coast Bank's largest lending activity by dollar volume is predominantly commercial (small business), consumer, and real estate lending. By number, consumer loans comprise the largest volume. As a result, small business, consumer and real estate loans were used to evaluate the bank's lending performance under the Community Reinvestment Act. Agricultural loans were not evaluated due to the absence of any significant lending by number or dollar volume. Loan samples originated from January 1, 2003, through December 31, 2003 were used for this evaluation, as the lending activity is consistent throughout this period.

Table 3 – Loan Originations between January 1, 2003 and December 31, 2003				
Loan Type	Number	Percent (%)	Dollar \$(000)	Percent (%)
Commercial	221	38	14,447	70
Consumer	271	46	2,040	10
Residential Real Estate	67	12	3,494	17
Agricultural	24	4	595	3
Gross Loans	583	100	20,576	100

Source: Bank records.

Random samples of 38 small business loans totaling \$2,380,258, in addition to 38 consumer loans totaling \$239,921 and 25 real estate loans totaling \$1,083,188 were reviewed. The samples were based on a 90 percent confidence interval and 15 percent precision level.

CONCLUSIONS FOR THE BEAUMONT-PORT ARTHUR AND HOUSTON-BAYTOWN-SUGAR LAND MSAS

During this evaluation, examiners noted that performance was similar between both MSA portions of the bank's assessment area.

LOAN-TO-DEPOSIT RATIO

The bank's lending activity, as measured by its loan-to-deposit ratio, is satisfactory. Since loans are primarily funded through the bank's deposits, examiners reviewed the bank's loan-to-deposit ratio as an indicator of the institution's level of lending activity. Using data from the Consolidated Report of Condition and Income for the past 23 quarters, the bank's average loan-to-deposit ratio is 52 percent. Listed alphabetically, and utilizing the same data and time frame, Table 4 shows the subject bank and a comparative analysis of other similarly-situated financial institutions.

Bank Name	Total Assets \$(000)	Total Net Loans \$(000)	Total Deposits \$(000)	Average Loan- to-Deposit Ratio (%)
<i>Gulf Coast Bank Winnie</i>	60,071	30,656	53,198	52
First State Bank Bedias	54,389	26,273	46,347	51
Hebbronville State Bank Hebbronville	59,646	21,187	49,958	65
The Bank of Navasota Navasota	68,761	31,506	60,396	42

Source: Reports of Condition and Income

In comparison, the above noted banks are similar in loan size and total loan mix. The exclusion of public funds did not significantly impact the analysis of this report. After considering and reviewing the bank's asset size, financial competition, location, and lending opportunities, the bank's average loan-to-deposit ratio for the past 23 quarters, as compared to the above, is satisfactory.

LENDING IN THE ASSESSMENT AREA

The bank's proportion of lending activity within the assessment area is satisfactory as a majority of the loans sampled by number and dollar volume were originated within the assessment area.

An assessment area is a geographical area in which the bank intends to concentrate the majority of its lending. Criteria for a bank's lending performance is based on the number and dollar volume of loans originated within the assessment area. Table 5 below illustrates the bank's lending in the assessment area.

Loan Category	Number of Loans				Total	Dollar Volume of Loans				Total \$(000)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$(000)	%	\$(000)	%	
Small Business	27	71	11	29	38	1,638	69	742	31	2,380
Consumer	36	95	2	5	38	211	88	28	12	239
Residential Real Estate	20	80	5	20	25	848	78	235	22	1,083
Total	83	82	18	18	101	2,697	73	1,005	27	3,702

Source: Bank Records. Loan originations January 1, 2003 through December 31, 2003.

As shown in Table 5 on the previous page, Gulf Coast Bank makes a majority of sampled small business, consumer, and residential real estate loans inside its assessment area. Overall, as noted, 82 percent of the total number and 73 percent of the total dollar volume of the combined loan samples are inside the assessment area. The level of lending within the assessment area demonstrates that its performance is satisfactory when considering the assessment area in relation to the bank’s asset size and office locations.

GEOGRAPHIC DISTRIBUTION OF LOANS

The general geographic make-up of the bank’s assessment area includes moderate-, middle- and upper-income geographies. The bank does not have any low-income geographies. Overall, the bank has achieved an excellent geographic dispersion of loans to the moderate-income geographies.

Small Business Loans

Utilizing information in Table 6 below, a geographic analysis of 27 small business loans was conducted in comparison to the geodemographic data, revealing a strong distribution.

Table 6 – Distribution of Small Business Loans by Income Category of the Census Tract					
Census Tract Income Level	Dun & Bradstreet Data (% of #)	Number of Loans		Dollar Amount of Loans	
		#	%	\$(000)	%
Low	0	0	0	0	0
Moderate	27	14	52	883	54
Middle	46	4	15	108	6
Upper	27	9	33	647	40
Total	100	27	100	1,638	100

Source: Bank Records.

As noted in Table 6 above, the bank shows a strong level of lending to moderate-income tracts by number and dollar amount. Therefore, the bank’s record of lending to small businesses of various sizes reflects a strong geographic dispersion throughout the bank’s general assessment area.

Consumer Loans

An analysis of the geographic distribution of 36 consumer loans was also conducted using the sampling procedures previously described. This analysis is shown in Table 7 below. The geographic distribution of consumer loans is outstanding as compared to the assessment area households by census tract income level.

Table 7 – Geographic Distribution of Consumer Loans						
Income Level of Census Tracts	Households *		Number of Loans		Dollar Amount of Loans	
	#	%	#	%	\$(000)	%
Low	0	0	0	0	0	0
Moderate	11,351	28	22	61	153	73
Middle	17,398	44	10	28	45	21
Upper	11,233	28	4	11	13	6
Total	39,982	100	36	100	211	100

Source: Bank records January 1, 2003 through December 31, 2003. *2000 U. S. Census.

As Table 7 illustrates, the bank's consumer lending by number and dollar, reflects an outstanding penetration to moderate-income geographies.

Residential Real Estate Loans

An analysis of the geographic distribution of 20 real estate loans was also conducted using the sampling procedures previously described. As shown in Table 8 below, the geographic distribution of residential real estate loans is excellent as compared to the assessment area households by census tract income level.

Table 8 – Geographic Distribution of Residential Real Estate Loans						
Income Level of Census Tracts	Households *		Number of Loans		Dollar Amount of Loans	
	#	%	#	%	\$(000)	%
Low	0	0	0	0	0	0
Moderate	11,351	28	13	65	554	65
Middle	17,398	44	2	10	86	10
Upper	11,233	28	5	25	208	25
Total	39,982	100	20	100	848	100

Source: Bank records January 1, 2003 to December 31, 2003. *2000 U. S. Census.

Overall, the geographic dispersion of small business, consumer, and residential real estate lending activity, is excellent.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES AND OF DIFFERENT SIZES

The bank’s record of lending to borrowers of different incomes and businesses of different sizes demonstrates a satisfactory level of performance based on small business, consumer, and residential real estate lending to various-sized businesses and low- and moderate-income borrowers.

Small Business Loans

Again, utilizing the sampling procedures as previously described an analysis of the distribution of 27 small business loans by gross annual revenues and loan size was performed. The bank’s record of lending to businesses of different incomes and loan size is strong.

Table 9 below stratifies the gross annual revenues by number and dollar of the 27 loans reviewed as compared to Dun & Bradstreet data.

Table 9 – Distribution of Small Business Loans by Gross Annual Revenues					
Gross Annual Revenues \$(000)	Dun & Bradstreet Data (% of #)	Number of Loans		Dollar Volume of loans	
		#	%	\$(000)	%
≤ 1,000	63	26	96	1,374	84
> 1,000	5	1	4	264	16
N/A	32	0	0	0	0
Total	100	27	100	1,638	100

Source: 2003 Dun & Bradstreet Data. Bank records from January 1, 2003 through December 31, 2003.

Quantifying a bank’s performance for lending to businesses of different sizes is somewhat difficult due to the lack of comparative data. However, information provided by Dun & Bradstreet (D&B) is commonly used for quantifying a bank’s performance for lending to businesses of different sizes. As shown in Table 9 above, the most recent business data from D&B indicated that 63 percent of the non-farm businesses in the assessment area that reported to D&B generated revenues of \$1 million or less annually. However, 32 percent of the businesses did not report income. Given the unknown nature of that sector and considering lending performance of 96 percent by number and 84 percent by dollar volume, the bank’s lending to businesses’ with gross annual revenues of \$1 million or less, indicates a strong record of the bank’s commitment to serve small businesses.

Therefore, Gulf Coast Bank’s record of lending to businesses of different revenues is strong in relation to D&B business demographic data.

Table 10 on the following page presents a comparison of the number and dollar volume of small business loans extended within the bank’s assessment area and was compared to the 2002 CRA data.

Since data relative to loan size is an indirect measure of small business lending performance, small business loans were also analyzed by loan size. However, loan size is given less weight with regard to gross annual revenues.

The bank's origination of small business loans under \$100,000, both in number and by dollar volume, is strong when compared with aggregate data as shown in Table 10 below.

Table 10 – Distribution of Small Business Loans by Loan Size						
Loan Size \$(000)	Aggregate Lending Data (% of # 2002)	Number of Loans		Aggregate Lending Data (% of \$) 2002	Dollar of Loan	
		#	%		\$(000)	%
≤ 100	95	24	89	39	599	37
> 100 ≤ 1,000	5	3	11	61	1,039	63
Total	100	27	100	100	1,638	100

Source: 2002 CRA Aggregate Data. Bank records from January 1, 2003 to December 31, 2003.

Overall, with respect to small business lending, the bank has demonstrated satisfactory performance in relation to aggregate data.

Consumer Loans

An analysis of the distribution of consumer loans by borrower income was also conducted using the sampling procedures previously described. The bank demonstrates a satisfactory performance record of consumer lending to low- and moderate-income borrowers.

Income classification and household statistics for the assessment area were derived from the 2000 U.S. Census data. The Department of Housing and Urban Development (HUD) estimated 2003 median family incomes (MFI) were used in this analysis. Income classification for this analysis was based on the 2003 HUD estimated MFI for the Houston-Baytown-Sugar Land MSA of \$59,100 and the Beaumont-Port Arthur MSA of \$46,800, respectively. Table 11 below provides information on how each income level is defined for the Houston-Baytown-Sugar Land MSA. Table 12 on the following page provides information on how each income level is defined for the Beaumont-Port Arthur MSA. This information is then used for comparison to the income of borrowers originating loans in 2003.

Table 11 – Income Range for the Houston-Baytown-Sugar Land Metropolitan Assessment Area		
Income Level	Percent of MFI	Income Range 2003
Low	Less than 50%	Less than \$29,550
Moderate	50% to < 80%	\$29,550 to < \$47,280
Middle	80% to < 120%	\$47,280 to < \$70,920
Upper	120% or more	\$70,920 or more

Table 12 – Income Range for the Beaumont-Port Arthur Metropolitan Assessment Area		
Income Level	Percent of MFI	Income Range 2003
Low	Less than 50%	Less than \$23,400
Moderate	50% to < 80%	\$23,400 to < \$37,440
Middle	80% to < 120%	\$37,440 to < \$56,160
Upper	120% or more	\$56,160 or more

Table 13 presents a comparison of the number and dollar volume of consumer loans extended within the bank’s assessment area, which was compared to the percent of households with incomes within these ranges.

Table 13 – Distribution of Consumer Loans by Borrower Income					
Borrower Income Level	Percent of Assessment Area Households	Total Number of Loans		Total Dollar of Loans	
	Percent (%)	Number	Percent (%)	Dollar \$(000)	Percent (%)
Low	24	13	36	53	25
Moderate	16	14	39	95	45
Middle	19	3	8	25	12
Upper	41	6	17	38	18
Total	100	36	100	211	100

Source: 2000 U.S. Census. Bank Records.

Table 13 above demonstrates the bank’s performance record of loans as strong by number and dollar amount to low-income borrowers. Comparing moderate-income borrowers, the performance by number and by dollar amount is excellent as compared to the percent of area households.

Overall, the distribution of consumer loans by borrower’s income is excellent.

Residential Real Estate Loans

The bank’s record of lending to individuals on residential real estate loans reveals a good penetration among borrowers of different income levels. Examiners arrived at this conclusion based on the bank’s record for both number and dollar volume of loans.

The analysis of the distribution of residential real estate loans by borrower income was conducted using the sampling procedures previously described. U.S. Census data on assessment area households by income classification was used for this analysis. Tables 12 and 13 above provide information on how each income level is defined.

Table 14 below presents a comparison of the number and dollar volume of residential real estate loans extended within the bank's assessment area and was compared to the percent of assessment area households with incomes in these ranges. The bank's lending performance by number and by dollar is good as it exceeds the percentage of assessment area households for both low- and moderate-income borrowers.

Table 14 – Distribution of Residential Real Estate Loans by Borrower Income						
Borrower Income Level	Percent of Assessment Area Households	Number of Loans		Percent of Assessment Area Households	Dollar of Loan	
		#	%		\$(000)	%
Low	24	3	15	24	68	8
Moderate	16	4	20	16	122	14
Middle	19	7	35	19	248	29
Upper	41	6	30	41	410	49
Total	100	20	100	100	848	100

Source: 2000 U. S. Census Data. Bank records.

The bank's record of lending to borrowers of different incomes reflects good penetration among real estate loan borrowers of different income levels.

Overall, lending to businesses of different sizes and borrowers of different incomes, is satisfactory.

RESPONSE TO CRA-RELATED COMPLAINTS

There have been no CRA-related complaints received since the previous performance evaluation.

COMPLIANCE WITH FAIR LENDING REGULATIONS

No substantive violations of fair lending regulations were identified during the examination.

GLOSSARY

Census Tract - a small locally demarcated area, usually in a metropolitan neighborhood, defined by the decennial census to consist generally of stable boundaries and an average population of 4,000.

Dun & Bradstreet - a leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

HMDA - Home Mortgage Disclosure Act (see HMDA-LAR)

Low-income -

- for a census tract - this refers to income levels less than 50% of the MFI for the MSA in which the tract is located.
- for a block numbering area - this income range is less than 50% of the MFI for all non MSA areas in the state in which the block numbering area is located.
- for individuals - this refers to income levels less than 50% of the most recent year's estimation of the MFI by the Department of Housing and Urban Development.

MFI - median family income as determined by either the Census Bureau or adjusted by HUD.

Middle-income - determined using the same methodology as for low-income. The percentage used for middle-income designation is 80% - 119%.

Moderate-income - determined using the same methodology as for low-income. The percentage used for moderate-income designation is 50%-79%.

MSA - metropolitan statistical area as determined by the Census Bureau. Usually consists of contiguous census tracts and block numbering areas comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

Upper-income - determined using the same methodology as for low-income. The percentage used for upper-income designation is greater than or equal to 120%.