

HOUSTON BUSINESS JOURNAL

Strictly Houston. Strictly Business.

Week of November 21-27, 2008

FACE TO FACE WITH...

Jim Stein President and CEO Bank of Houston



Jim Stein is president and CEO of Bank of Houston, which opened in 2005.

Stein began his banking career in 1981 with Columbus State Bank in Columbus, and was the bank's president from 1994 to 1996.

Stein moved to Houston in 1997, where has been an officer and partner in various businesses, including serving as president of Central Texas Bankshare Holdings Inc., a multibank holding company with assets in excess of \$200 million. He also has served on the boards of directors of Columbus State Bank, Central Texas Bankshare Holdings Inc., the Texas Bankers Association, Momentum Capital Corp. and Bank of Houston.

Stein was interviewed by Christine Hall.

Q Did Bank of Houston participate in the subprime lending market or purchase preferred stock in Fannie Mae or Freddie Mac?

A No. We are a conservative management team, and we believe it prudent to invest locally in stable, conforming, traditional credits as well as U.S. Government Agency and U.S. Treasury bond investments.

Q There is much fear and consternation in the market. What are you telling your business customers?

A We are experiencing historical volatility in the market due to the level of irrational fear relative to the underlying fundamentals. Houston and Texas have outperformed the country and, in my opinion, will continue to outperform the country. At Bank of Houston we are advising our clients to be patient, control their overhead, diversify their revenue sources and observe prudence in their growth plans. Well-run businesses with solid historical earnings and conservative balance sheets will continue to have access to capital. For our customers with excess liquidity seeking a safe

haven for their deposits, our focus continues to be on creating shareholder value.

Q How competitive is the banking scene in Houston?

A The Houston market has been extremely competitive in the past, but recent events have changed the dynamic. The industry had been experiencing pressure on deposit pricing (historically high relative to the yield on assets) due to the influx of out-of-state banks looking to buy market share. The deposit pricing, while still high, is a result of those banks' efforts to maintain liquidity. The net effect is the continued pressure on the margins within our industry. We anticipate the recent economic turmoil will force the industry to refocus on its core business and return responsible pricing to the market based on historic margins that are both fair and reasonable to the customer and shareholder.

Q In light of today's economy, what do banks have to do to attract and retain business customers?

A Focus on building great relationships one by one. The typical client has a very busy lifestyle and wants to deal with financial professionals who are experienced and capable of solving their financial needs without wasting their time. Be proactive in serving clients' needs as well as cultivating new referral relationships.

Q How do you view the outlook for the city of Houston?

A We are very bullish in regards to our city. Even though our market has softened some over the past few months, our city has continued to dramatically outperform the nation. Houston and Texas benefited from the more conservative real estate under-writing standards employed by Texas bankers and hence we Texans have not experienced the credit problems brought on by the over-leveraging of our homes. Houston also did not experience the runaway inflation in home prices found in other markets, brought on, in large part, by out-of-state speculative investors. This insulated our real estate market from the spike in prices and the resulting steep declines we see in other markets. Additionally, Houston has been a strong job market for the last few years, and we believe it will continue to outperform the country in job creation.

Q Houston has had an influx of banks over the past five years. Is there still room for expansion by banks here, or is the market becoming saturated?

A We divide banking into two broad categories — retail and relationship, with banks with over \$1 billion in assets generally falling in the category of retail, and banks below \$1 billion in assets being relationship. The recent "bank on every corner" influx has been driven by the retail banks that employ these locations as deposit collection touch points and fee income generators. Relationship banks fill a different niche in that they offer growth capital to small business owners and provide personalized customer service and solutions to clients. We have seen an expansion in this market due to the addition of several de novo banks over the last few years. We believe competition is healthy for a market and that there is room in every market for well-managed companies providing desired services. In our opinion, the market will dictate proper balance based on the ability or inability of any new bank to service the needs of the market.