



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 26, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First-Nichols National Bank
Charter #12187
100 South Sunset Strip
Kenedy, Texas 78119**

**Office Of The Comptroller Of The Currency
Southwestern District
1600 Lincoln Plaza
500 North Akard
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 First-Nichols National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 26, 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

First-Nichols National Bank makes a substantial majority of the number and dollar amount of their loans in its defined assessment area. Loans are made to individuals of different income levels, including those with low- and moderate-income, as well as to farms and businesses of different sizes.

The following table indicates the performance level of First-Nichols National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST-NICHOLS NATIONAL BANK</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	Not meaningful.		
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

First-Nichols National Bank (FNNB) is a \$34 million institution that opened in 1906 in the town of Kenedy, Texas. The town is located in Karnes County approximately 60 miles South of San Antonio, Texas. FNNB is an independently owned bank that operates one main office with drive-thru facilities and one off-premises ATM.

The bank's asset structure consists of 55% investment securities and 37% loans. The loan portfolio mix shows a concentration in commercial business and real estate loans at 48% of gross loans (GL) with agricultural loans at 22% of GL. Consumer and 1-4 family residential loans each contribute an additional 15% to total GL. The bank makes small consumer and farm loans. These loan products have helped the low- and moderate-income population in the community.

The bank maintains adequate resources to meet any legal loan requests. Currently, there are no legal impediments that would interfere with its ability to make credit available in its assessment area. The prior CRA examination for FNNB is dated November 16, 1994, at which time the bank was rated *Satisfactory*.

DESCRIPTION OF ASSESSMENT AREA

The initial assessment area was not legal in that it did not include whole geographies. Bank management corrected this situation by redefining their assessment area as all of Karnes County. The county is divided into four Block Numbering Areas (BNA). One BNA is defined as middle- income and the other three as moderate-income. The assessment area does not contain BNAs that are defined as low- or upper-income. However, of the families residing within the assessment area, 34.93% are low-income, 17.27% are moderate-income, 14.19% are middle- income, and 33.59% are upper-income families.

The median family income for Karnes County is \$24,586. This is slightly lower than the 1996 Department of Housing & Urban Development statewide non-metropolitan median family income of \$28,900.

Karnes County has a population of approximately 12,500. Kenedy is one of the four larger towns in this predominantly rural county. The unemployment rate for March 1996 was 5.5% with the population trend stable after several years of decline. Major employers include Hercules-Aqualon, Inc., Wal-Mart, a state correctional facility, and the local school district. These four entities employ approximately 430 people. The general economy is weak; however, it shows some signs of strengthening.

FNNB is one of five financial institutions in the assessment area. The competition is comprised of two independently owned national banks, two branches of distant regional banks, and one local teachers credit union.

We conducted community contacts with a service agency and a housing organization. Both of these organizations service the bank's assessment area. They identified small consumer loans and affordable housing loans as credit needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan To Deposit Ratio

First-Nichols National Bank's average loan-to-deposit ratio for the past eight quarters is 38.89%. While this performance level is below the average of 44.25% for 14 other institutions in the surrounding counties, the significance does not detract from a satisfactory rating. As of March 31, 1996, the peer banks loan-to-deposit ratios ranged from 28.66% to 65.67%. FNNB's loan-to-deposit ratio was higher than the two other national banks in the assessment area as of March 31, 1996. Management has responded to the need for small consumer loans as evidenced by the number of consumer loans made year-to-date 1996. Twenty-five percent of all loans made through August 1996 were originated for \$1,200 to as low as \$100.

Lending In The Assessment Area

First-Nichols National Bank does an outstanding job of making loans within its assessment area. A recent in-house analysis, for all types of loans made year-to-date, reflects that 82% of the number and 80% of the dollar volume of loans were made in the assessment area. This is similar to our sample which reflects that 83% of the number and 79% of the dollar volume of loans were made in the assessment area.

Lending To Borrowers Of Different Incomes And To Businesses Of Different Sizes

The distribution of loans to borrowers of different incomes and to businesses/farms of different sizes is satisfactory. Overall loan distribution approximates the income characteristics of the assessment area, as reflected in the following charts.

Lending To Borrowers Of Different Income Levels										
	Low -Income Families		Moderate- Income Families		Middle- Income Families		Upper-Income Families		Totals	
Area Demographic Characteristics	34.93%		17.27%		14.19%		33.59%		100.00%	
	#	%	#	%	#	%	#	%	#	%
Loan Types										
Mortgage	2	5%	0	0%	1	6%	13	89%	16	100%
Consumer	21	55%	5	13%	9	24%	3	8%	38	100%
	\$	%	\$	%	\$	%	\$	%	\$	%
Mortgage	23	5%	0	0%	27	6%	413	89%	463	100%
Consumer	28	36%	8	10%	30	39%	12	15%	78	100%

Lending To Businesses/Farms Of Different Sizes										
Revenue Ranges (in thousands)	<\$100		\$100 to \$500		\$500 to \$1,000		>\$1,000		Totals	
	#	%	#	%	#	%	#	%	#	%
Loan Types										
Commercial	7	47%	4	27%	1	6%	3	20%	15	100%
Agricultural	8	100%	0	0	0	0	0	0	8	100%
	\$	%	\$	%	\$	%	\$	%	\$	%
Commercial	102	31%	51	16%	80	25%	91	28%	324	100%

Agricultural	145	100 %	0	0	0	0	0	0	145	100%
--------------	-----	----------	---	---	---	---	---	---	-----	------

/// *Geographic Distribution Of Loans*

Analysis of this element would not be meaningful as the bank is located in a non-Metropolitan Statistical Area.

/// *Responses To Complaints*

No complaints regarding the bank's Community Reinvestment Act performance have been received since the previous examination. Based on the loans sampled during our examination, no violations of the substantive provisions of the fair lending laws and regulations were identified.