



PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT

PERFORMANCE EVALUATION

May 4, 1998

The First National Bank of El Campo
Charter Number 6112

202 East Jackson
El Campo, Texas 77437

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 a financial institution 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 **The First National Bank of El Campo, El Campo, Texas** prepared by the **Office of the Comptroller of the Currency**, the institution's primary supervisory agency, as of May 4, 1998. 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*.

The First National Bank of El Campo has a *Satisfactory* record of meeting credit needs within the community, as evidenced by the following:

- A sizeable majority of loans are originated within the bank's Assessment Area;
- A reasonable distribution of loans originated to borrowers of different income levels and businesses of different sizes;
- A reasonable geographic distribution of loans within its Assessment Area;
- A Loan-to-Deposit Ratio that does not compare satisfactorily to similarly situated institutions, but is increasing.

The following table summarizes the performance level of **The First National Bank of El Campo, El Campo, Texas** with respect to each of the five performance criteria.

Table 1

| SMALL INSTITUTION ASSESSMENT CRITERIA | THE FIRST NATIONAL BANK OF EL CAMPO EL CAMPO, TEXAS PERFORMANCE LEVELS | | |
|--|---|--|--|
| | <u>Exceeds</u> Standards for Satisfactory Performance | <u>Meets</u> Standards for Satisfactory Performance | <u>Does not meet</u> 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 | | X | |
| Response to Complaints | No complaints have been received by the bank since the prior CRA examination. | | |

PERFORMANCE CONTEXT

Assessment Area

The bank has elected Wharton County, Texas as its assessment area for the purpose of measuring the bank's performance under the Community Reinvestment Act (CRA). This is the area in which the bank's efforts are to be judged. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts.

This county contains a total of 11 census tracts, as determined by the U.S. Census Bureau, and, according to 1996 estimates, is home to roughly 40 thousand people. The table below displays some of the characteristics of the census tracts comprising the bank's assessment area. Tracts are characterized based upon a percentage of the Median Family Income (MFI). The updated 1997 Median Family Income for Non-MSA areas in Texas is \$32,100.

Table 2

| Tract Characteristics | Count | % | Households | % |
|--|--------------|-------------|-------------------|-------------|
| Low Income (<i><50% of MFI</i>) | 0 | 0% | 0 | 0% |
| Moderate Income (<i>50%-80% of MFI</i>) | 3 | 28% | 2,820 | 20% |
| Middle Income (<i>80%-120% of MFI</i>) | 4 | 36% | 3,566 | 25% |
| Upper Income (<i>>120% of MFI</i>) | 4 | 36% | 7,879 | 55% |
| Total | 11 | 100% | 14,265 | 100% |

Source: 1990 U.S. Census

The 1990 U.S. Census listed 20 percent of the local population as living at, or below, the poverty level. Fifty percent of the populace receives at least some of its income from retirement or social security or some form of public assistance. Approximately 9 percent speak a language other than English as a primary language. Of the 1990 estimate of 16.3 thousand housing units in this assessment area, 79 percent are 1-4 family units. The median age of these structures is in excess of 30 years.

The City of El Campo and the City of Wharton dominate the county, with the latter serving as the county seat. Much of Wharton County is agricultural with sorghum, cotton, corn, rice and soybeans as primary crops. Wharton County is the leading producer of rice in Texas, with more than 23 percent of the state's total output. Additionally, cattle ranching adds significantly to the economy. While some manufacturing and service enterprises exist in both communities, agriculture continues to play the central role. Major sources of employment also include Wharton Junior College and a regional hospital.

Both El Campo and Wharton reflect their rural ties and links to agriculture. Both communities are small, with populations of approximately 10 thousand each, and display a diversity of ethnic and economic backgrounds. Although tracted by the U.S. Census Bureau, with each tract assigned a descriptor, such as Moderate-Income, Middle-Income or Upper-Income, none of the tracts in Wharton County reflect the demographic homogeneity of urban census tracts.

For example, according to the 1990 U.S. Census, 26.01 percent of families living in Upper-Income Tracts and 39.75 percent of families living in Middle-Income Tracts are described as Low- to Moderate-Income. From another perspective, 64.25 percent of Low-Income families live in Middle- and Upper-Income Tracts. Similarly, 74.01 percent of Moderate-Income families live in Middle- and Upper-Income Tracts. Conversely, only 67.32 percent of Upper-Income families actually live in Upper-Income Tracts. More households below the Poverty Line live in Middle-Income Tracts than live in Moderate-Income Tracts. Again, as seen from Table 2, on the preceding page, there are no Low-Income Tracts in Wharton County.

Competition is provided by offices of seven state-chartered commercial banks, three savings banks and savings and loan associations and several finance companies, mortgage companies and credit unions. There are also captive finance companies providing specialized consumer credit to the customers of such entities as Home Depot, Wal-Mart, John Deere and White's Auto. Low-rate automobile purchase loans are available through the area's four new car dealers.

Table 3, below, indicates the extent to which Wharton County is served by financial institutions.

Table 3

| Institution Name | Wharton County Deposits (\$000) | Percent of Bank's Deposits that are in Wharton County Branches | Market Share of Wharton County Deposits |
|---|--|---|--|
| Bank United | 129,717 | 2.45 | 22.35% |
| First National Bank of El Campo | 78,694 | 100.00 | 13.56% |
| Union State Bank | 64,159 | 100.00 | 11.06% |
| Commercial State Bank of El Campo | 59,265 | 93.20 | 10.21% |
| Heritage Bank | 49,828 | 19.48 | 8.59% |
| Coastal Banc, S.S.B. | 46,841 | 3.40 | 8.07% |
| First State Bank of Louise | 41,723 | 68.70 | 7.19% |
| First Prosperity Bank | 40,595 | 13.99 | 7.00% |
| Community State Bank | 38,467 | 100.00 | 6.63% |
| Compass Bank | 15,682 | 0.37 | 2.70% |
| Fort Bend Federal Savings and Loan Association | 15,362 | 5.61 | 2.65% |
| | \$580,333 | | |

Source: FDIC.
All figures are as of June 30, 1997.

Institution Characteristics

The bank operates from its main office in El Campo and a full-service branch in downtown Wharton. Table 4, below, presents selected information from the bank's Reports of Income and Condition for the years indicated. All amounts are thousands of dollars.

Table 4

| Balance Sheet Item | 12-31-94 | 12-31-95 | 12-31-96 | 12-31-97 | 3-31-98 |
|---|-----------------|-----------------|-----------------|-----------------|----------------|
| Real Estate Loans | 7,909 | 4,805 | 6,539 | 6,903 | 6,732 |
| Commercial Loans | 2,379 | 3,123 | 3,372 | 6,114 | 6,115 |
| Consumer Loans | 1,580 | 1,866 | 2,530 | 3,186 | 3,236 |
| Agricultural Loans | 3,511 | 3,862 | 4,812 | 5,314 | 5,801 |
| Investments | 78,212 | 77,751 | 77,334 | 70,063 | 65,343 |
| Total Assets | 100,782 | 98,100 | 99,805 | 98,173 | 92,530 |
| Core Deposits | 85,987 | 81,182 | 81,836 | 81,018 | 76,013 |
| Total Deposits | 88,397 | 84,082 | 85,783 | 84,048 | 78,806 |
| Capital | 11,921 | 13,305 | 13,200 | 13,278 | 12,743 |
| Net Income | 1,423 | 1,228 | 1,383 | 1,603 | 386 |
| Source: Reports of Condition and Income for dates indicated. | | | | | |

The last CRA Public Evaluation was dated March 27, 1995, in which a "Satisfactory" rating was assigned. The bank is not a member of a multibank holding company or any chain-bank group. No legal, financial, or other factors impede the bank's ability to help meet the credit needs in its assessment area.

SMALL INSTITUTION ASSESSMENT CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio does not meet the standards for satisfactory performance. This ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. In order to determine performance over a period of time, the average of such ratios for each quarter-end since the preceding CRA evaluation is used. It is an absolute measure. However, comparison of ratios between otherwise similar institutions requires an understanding of the markets the institutions serve and the particular characteristics of each institution's deposit base.

For the thirteen calendar quarters ending March 31, 1998, the bank's ratio of net loans to total deposits has averaged 21.56 percent. As of March 31, 1998, this ratio was 27.61 percent. This compares to other area financial institutions for which loan-to-deposit ratios range from approximately 30 percent to 54 percent. However, many of these institutions, as noted in Table 3, have substantial operations outside of Wharton County. It is not known how much of their lending has been to customers domiciled in Wharton County. Consequently, local loan-to-deposit ratios for these institutions may be higher, or lower, than The First National Bank of El Campo. The two other banks with operations limited to Wharton County have ratios of loans to deposits of 30 percent and 31 percent, respectively.

Notably, though, when growth rates of the respective institutions' loan portfolios are compared, First National Bank of El Campo compares quite favorably. From year-end 1995 to year-end 1997, this bank's dollar volume of lending increased 59 percent. The growth rates of competitors' ratios ranged from a high of 37 percent to a low of -3 percent. However, First National Bank's growth is from a weak beginning. At year-end 1995, The First National Bank of El Campo had a loan-to-deposit ratio of only 16 percent.

Lending in Assessment Area

The bank's lending in its assessment area exceeds the standards for satisfactory performance. This criterion quantifies what proportion of the bank's lending activity is within its elected assessment area. In larger institutions located in areas of greater population density, this is measured by reviewing the loans extended in particular census tracts. However, The First National Bank of El Campo is not required to maintain such data. Periodically, management prepares which demonstrate that virtually all lending occurs to borrowers domiciled within the assessment area of Wharton County, Texas. As of February 24, 1998, the bank showed that 94.68% of real estate loans originated by the El Campo office were within Wharton County. Further, a printout prepared by the bank, lists all accounts in the bank's loan portfolio, by postal ZIP Code, as of May 13, 1998. This list includes 1,054 accounts, of which 866, or 82.16%, contains addresses with Wharton County ZIP codes. Another 111, or 10.53%, list ZIP codes in areas adjacent to Wharton County.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

A review of all loans generated by the bank for the months January, February and March of 1997 was performed. The results of this review are presented in the table, below. The data in Table 5, below, indicate that the bank makes a majority of its loans to small businesses and farms. In fact, discussions with management indicate that most commercial and agriculture loans are to small farms or small businesses. In addition, Table 5 shows that loans of all sizes are made to consumers.

Table 5

| Loans Generated January 31, 1997 - March 31, 1997 | | | |
|--|----------|--------------|----------|
| Type of Loan | Consumer | Agricultural | Business |
| Number of Loans | 122 | 41 | 21 |
| Average Loan Size | \$7,750 | \$83,028 | \$89,886 |
| Median Loan Size | \$3,808 | \$31,000 | \$25,000 |

The *average* loan size is the sum of all loans by category divided by the number of loans in that category.

The *median* loan size is a statistical measure that indicates the midpoint of all loans in a particular category. Half the loans are larger than the median and half are smaller.

As the bank is a small, community bank, it is not required to maintain demographic data on the incomes of the individuals or businesses to which it lends. Such data gathering is required only of larger banks under the Community Reinvestment Act. In order to determine whether the bank is lending to individuals of all incomes and to businesses of all sizes, a surrogate measure is used. This surrogate measure is the loan size. Inasmuch as anecdotal evidence will suggest that wealthy borrowers seldom borrow small sums, and that borrowers of modest means rarely qualify for larger loans, loan size fairly approximates the patterns of bank lending that income data would reveal.

Geographic Distribution of Loans

The bank's geographic distribution of loans meets the standards for satisfactory performance. The dispersion of loans originated by the bank follows a pattern indicative of an institution seeking to serve the credit needs of the communities in which it is located.

The report prepared by the bank listing loan accounts by postal *ZIP* codes (discussed on page 8), demonstrated that 74.95 percent of the loan accounts the bank lists are to borrowers with addresses containing postal *ZIP* codes from the cities of El Campo and Wharton. These areas contain 73.94 percent of the county's population and consist of mostly middle- and moderate-

income tracts. In fact, these areas account for all four of the county's moderate-income tracts and three of the four middle-income tracts. Given that 82.16 percent of the bank's loans are in Wharton County, the remaining 7.21 percent of the number of the bank's loans are to Wharton County borrowers with postal *ZIP* codes indicating they live in one of three census tracts, one of which is middle-income and two of which are upper-income. These three census tracts are sparsely populated containing approximately 25.40 percent of the county's population, despite the fact that they cover more than half the surface area of the county.²

This form of analysis was used as a surrogate for census tract analysis:

- as the bank is not required to maintain data as to its penetration of particular census tracts,
- the assessment area (Wharton County) has only eleven census tracts, three of which cover half the county, and
- these eleven census tracts each lack demographic homogeneity. See also page 5, the description of the assessment area under "Performance Context."

Response to Complaints

No complaints have been received by the bank regarding its performance under CRA since the previous CRA evaluation. Management of the bank has the ability to respond effectively should such complaints arise.

Compliance With Antidiscrimination Laws

A review of the bank's compliance with laws and regulations regarding Fair Lending was conducted concurrent with this CRA evaluation. The bank's compliance with the Equal Credit Opportunity Act, the Fair Housing Act and the Home Mortgage Disclosure Act were reviewed. No violations were noted. No instances were noted in which credit decisions were influenced by prohibitive factors. No practices were noted which would encourage unlawful discrimination in the lending process.

²Population estimates as of June 30, 1995 provided by the City Development Corporation of El Campo.