



PUBLIC DISCLOSURE

June 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Livingston
Charter Number 6169**

**Post Office Box 671
Livingston, Texas 75862**

**Office of the Comptroller of the Currency
Southwestern District Office
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 the **First National Bank of Livingston** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 30, 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*.

First National Bank of Livingston has a *satisfactory* record of meeting credit needs within the community, as evidenced by the following:

- A reasonable loan-to-deposit ratio which meets the standards for satisfactory performance;
- A significant majority of loan originations within the bank's assessment area;
- A satisfactory distribution of loan originations to borrowers of different income levels and businesses of different sizes;
- A satisfactory geographic distribution of lending within the assessment area; and,
- An acceptable response to a consumer complaint.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NATIONAL BANK OF LIVINGSTON</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		X	
Response to Complaints		X	

DESCRIPTION OF INSTITUTION

The first National Bank of Livingston is located in Livingston, Texas. The bank has \$140 million in assets and serves its customers with one main location and two branches. To help meet the credit needs of its community, the bank offers loan products for consumers and small businesses. Lending activity is in the following categories: real estate (33%), one - four family residential property (27%), loans to individuals (25%), agricultural (1%) and commercial and industrial loans (14%). The bank offers a variety of deposit accounts and other banking services as well.

DESCRIPTION OF ASSESSMENT AREA

The bank's designated assessment area includes parts of three counties. The counties and tract numbers are Trinity (9504), Polk County (2101, 2101, 2103, 2104 and 2105) and San Jacinto (2001, 2002 and 2003). The census tracts have the following characteristics: two moderate income (20%), seven middle income (70%), and one upper income tract (10%). The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The assessment area has a population of about 50 thousand people, with 22% living below the established poverty level. The area is primarily rural. The city of Livingston has the largest concentration of the assessment area population. The assessment area has approximately 33 thousand housing units with 52% being owner occupied. One- four family dwellings comprise 68% of the housing units. The median housing value is \$41,697. The percentage of vacant housing units is high at 35% of the total. The median housing value is \$48,178, and the median monthly gross rent is \$333. As of the 1990 census, the HUD Metropolitan Statistical Area (MSA) Median Family Income was \$31,500. Social security payments are received by 38% of the population in the assessment area.

Although not considered intense, the bank is subject to competition from several other national banks, state chartered banks, and non-bank financial entities in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

First National Bank of Livingston (FNB) actively attempts to meet the credit needs of its assessment area. The loan-to-deposit ratio as of June 30, 1998 is low at 24% and reflects a declining trend. When the loan-to-deposit ratios is compared to peer groups, it is evident that the bank has ratios much lower than those of rural banks in Texas that are relatively the same size. The low ratio is due to the bank's flat loan demand. Management's efforts to increase the volume of loans include: increasing their marketing efforts, changing the bank's image to be more progressive, seeking participations purchased and merging with The Bank of Livingston to eliminate their competition.

Management is also trying to implement a low cost housing program that will be government guaranteed. This will assist management in addressing census tracts with areas of low penetration. These areas are generally the rural housing communities. Management plans to target these areas with home construction, home improvement or purchase through the Texas USDA Rural Development program (formerly known as the Farmers Home Administration). This, management feels, is needed in Livingston and in the surrounding towns. FNB is also the only bank in the area that is pursuing home equity lending. The bank's ratios for five quarters and two year ends are compared to similar peer groups and shown in Table 1. The declining loan to deposit ratio of FNB Livingston is evident.

Table 1

LOAN-TO-DEPOSIT RATIO FOR THE QUARTER ENDED	FIRST NATIONAL BANK OF LIVINGSTON	RURAL BANKS IN TEXAS UNDER \$100 MILLION IN ASSET SIZE	BANKS IN TRINITY, HOUSTON, WALKER, AND SAN JACINTO COUNTIES
December 31, 1997	24.42%	45.26%	47.42%
September 30, 1997	25.44%	44.96%	46.72%
June 30, 1997	27.44%	45.49%	47.09%
March 31, 1997	27.94%	44.57%	45.97%
December 31, 1996	29.26%	43.87%	45.56%

LENDING IN THE ASSESSMENT AREA

A management analysis revealed a significant majority of the bank's loans were within its assessment area. This analysis revealed 95% of the dollar amount in the loan portfolio or \$29.6 million was in the bank's assessment area.

First National Bank of Livingston participates in other projects designed to contribute to the general welfare of the community. This includes providing Small Business Administration guaranteed loans, home improvement loans with low closing costs, and permanent home purchase loans to low- and moderate-income borrowers. FNB is the only bank in the area that is making home equity loans. The bank also makes loans to area churches with members who are low- and moderate-income individuals

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

Overall, the bank's level of lending to individuals of different income levels and businesses of different sizes is satisfactory. Loan applications are solicited from all income levels. Our sample of consumer loans revealed a greater proportion of lending to low- and moderate-income borrowers than reflected by the area demographics. Management related that 34% of all their consumer loans are \$1,000 or lower. The majority of these types of loans are to low income residents in the bank's assessment area. Also, our sample of commercial loans revealed a majority of loans sampled were to small businesses with revenues less than \$1 million. However, mortgage loan applications are received primarily from moderate and middle income borrowers. Home improvement loans are also concentrated in moderate and middle income borrowers.

Table 2 is based on a sample of loans approved during the first quarter of 1998.

Table 2

Loans Generated January 31, 1998 - March 31, 1998			
Type of Loan	Consumer	Real Estate	Business
Number of Loans	455	16	83
Average Loan Size	\$9,756	\$46,000	\$13,987

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

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.

Our sample of loans from the bank's mortgage, consumer, home improvement, and small business portfolios revealed a satisfactory geographic distribution of loans. The bank has made loans in every census tract within its assessment area. The percentage of loans in moderate-income tracts exceeds the overall characteristics of the assessment area as a result of the bank's location. Loans in middle income tracts approximate the area demographic characteristics. Management prepares CRA reports which list loans by postal ZIP codes and GEO codes (geographical coding). The data in these reports show that the majority of loans originated in the first quarter of 1998 are to borrowers with addresses containing postal ZIP codes from the city of Livingston, Texas. The bank's consumer banking survey, prepared by Evets Management Services, Inc., shows that 50% of the banking households in the market area are in Livingston's primary zip code of 77351. Livingston, Texas has a population that consist of mostly low-to- moderate income tracts. A CRA tour evidenced that the census tracts are sparsely populated with several designated moderate income areas directly adjacent to very low income inhabitants. There are no census tracts with mostly high, moderate or low income wage earners. All the census tracts are thoroughly mixed. Management related that the census tracts in their assessment area should all be designated low- and moderate-income areas because of the nature of their population's wage earner distribution.

There are 16,662 households in the market area and 71% of those households are in the five census tracts in Polk County, which includes all of Livingston, Texas. The population of the assessment area census tracts are as follows: Polk County has thirty-one thousand, San Jacinto County has sixteen thousand, and Trinity County three thousand. This results in a total population for the assessment area of approximately fifty thousand. 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 has only nine (9) census tracts, five of which cover the majority of Polk County
- these nine census tracts each lack demographic homogeneity.

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.

²Population estimates as of January 29, 1996 provided by the Texas Comptroller of Public Accounts.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

First National Bank of Livingston is in compliance with the provisions of anti-discrimination laws and regulations. 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.

OTHER CONSIDERATIONS

The bank routinely makes community development loans in the normal course of business. They finance buildings for churches, equipment for the local hospital and provide funds for maintenance and improvements for other non-profit organizations. The Board is very involved in community activities.