

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Lorena State Bank  
Name of Institution  
Lorena  
City  
Texas  
State  
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Examiner-in-Charge

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## GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Lorena State Bank, Lorena, Texas, prepared by the Federal Reserve Bank of Dallas, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of November 27, 1995. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

### Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

## ASSIGNMENT OF RATING

### Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

**Outstanding** record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

**Satisfactory** record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

**Needs to Improve** record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

**Substantial Noncompliance** in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

## **DISCUSSION OF INSTITUTION'S PERFORMANCE**

Institution's Rating:

This institution is rated **Satisfactory** based on the findings presented below.

### **COMMUNITY PROFILE**

Lorena, Texas is located in the eastern foothills of the Texas hill country. Situated approximately 15 miles southwest of Waco, Texas and 25 miles north of Temple, Texas, Lorena encompasses an area of three square miles and has a population of 1,158 according to the 1990 census data. The city was originally a railroad stop for the southern portion of McLennan County, serving the farms and ranches in the area. Agriculture continues to play an important role in the community; however, increasingly, Lorena has become a bedroom community, with residents commuting to surrounding cities in Central Texas to work. The major employers are the Lorena Independent School District and Ironhorse Iron Works (metal fabrication facility). In an effort to improve the retail industry, a revitalization of the downtown area has occurred. Several stores specializing in antiques, decorations, lighting, and interior design are located in the central area of town.

### **BANK PROFILE**

Lorena State Bank is a small retail and agriculture oriented institution with most of its lending centered in farm credits and one-to-four family residential mortgages. As of September 30, 1995, the bank's total assets were approximately \$23 million and its loan to deposit ratio was 71.24 percent.

The bank is a subsidiary of Central Financial Bank Corporation, Inc., a two-bank holding company with one location at I-35 in Lorena, Texas.

### **ASSESSMENT OF RECORD**

#### **I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS**

Under this category, the bank is evaluated on the effectiveness and suitability of its means of gathering information regarding the credit needs of its entire community. The criteria is set forth in the assessment factors below with the respective supporting comments and conclusions.

**Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.**

The Statement of the Federal Financial Supervisory Agencies regarding the Community Reinvestment Act (Policy Statement) indicates that an effective CRA process must include methods to ascertain community credit needs on an ongoing basis through outreach efforts to local governments, businesses, and community members and organizations. This ascertainment effort should include a system that facilitates dialog with these individuals and groups and enables them to communicate their concerns to an officer of the financial institution.

Ascertainment of community credit needs is done primarily through the active involvement of bank management and staff in local community and civic groups. Organizations in which directors, management, and staff are involved include:

- ! Lorena Independent School District - Board Member
- ! Lorena Little League - Board Member and Coach
- ! Lorena Chamber of Commerce
- ! Lorena Merchants Association
- ! Lorena 2000 (organized to determine needs of the school district for the future and establish plans to achieve the identified goals)
- ! Lorena Economic Advisory Council
- ! Waco Chamber of Commerce

According to management, although the officer program is not on-going, management continues to regularly meet informally with members of the community via participation in local organizations. Information derived from daily contact with citizens is used to determine the adequacy and effectiveness of the bank's products and services.

It is very apparent from discussions with management and information obtained from the examiner's community contact that the president and chairman of the board conduct most of the CRA activities. While participation by staff and board of directors members does occur, the president is the primary participant in many activities to ensure adequate ascertainment of community needs happens.

The bank's performance under this assessment factor is acceptable.

**Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.**

The Policy Statement states that banks are encouraged to develop a CRA plan to ensure an affirmative effort on the part of the bank to comply with the act. It further states that the duty to coordinate and monitor the CRA process should be assigned to a senior officer or a committee charged with the responsibility to report periodically to the board of directors about the bank's CRA efforts, performance, and areas for improvement, where appropriate. An employee training program should be established which addresses information about those policies of the bank designed to help meet community credit

needs including the needs of low- and moderate-income areas and small businesses. Procedures should be implemented to assure that files are maintained, as required by the regulation, for purposes of receiving public comments and for reviewing and responding to the comments.

Regardless of how the bank organizes itself to implement its CRA plan, seeing that the institution has taken the steps necessary to help meet the community's credit needs is the responsibility of the entire organization, beginning with the board of directors and continuing through line management.

The board of directors has taken an active role in the oversight of the bank's CRA plan, as evidenced by the semi-annual review of the bank's geoanalysis of loan and deposit activity, including a comparison to the previous period's figures. In addition, monthly presentations are made identifying activities conducted during the previous month through which ascertainment of community credit needs and/or marketing of bank's products and services occurred. These CRA memorandums serve to keep board members abreast of activities conducted on behalf of the bank and allow for input from board members and management on ideas for additional programs to assist the community.

The Policy Statement states that the bank's CRA statement should accurately reflect the types of lending and other services that the bank is willing to offer the community. This statement must be reviewed at least annually to ensure its accuracy. The services that the bank chooses to offer should be clearly articulated and reasonably related to community needs.

The bank has an expanded CRA statement which includes its business plans and goals, providing for policy oversight and review. The statement was most recently approved by the board at its February 21, 1995 meeting. The bank has not, however, formally appointed a CRA officer, but the president directs most of the bank's CRA activities.

Information provided for examiners' review revealed that board members are informed of the bank's CRA related activities. In addition, CRA is a board-driven initiative. The bank's performance under this factor and category is adequate.

## **II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Under this category, the bank is evaluated on its marketing efforts to promote the types of credit it is prepared to offer to its community, programs utilized for product implementation, and the effectiveness of the overall delivery of those credit services included in the bank's CRA statement.

**Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.**

The Policy Statement indicates that an effective CRA plan should include marketing and advertising programs for lending products and services that are responsive to the needs of the community and that will inform and stimulate awareness of those products and services throughout the community, including low- and moderate-income areas.

The bank primarily markets its products and services through contact with local community organizations, as discussed above. Advertising efforts are limited to event programs such as Lorena High School football programs and "*The Neighborhood South*" and "*Neighborhood North*" local community-oriented sections of the *Waco Tribune-Herald* and *The Marlin Democrat*. Most advertisements are goodwill in nature and generally identify the types of services and products offered by the bank. Nevertheless, the bank used print advertising to promote its special rates for certificates of deposits. These advertisements were printed in the *Marlin Democrat* during December 1994, and January and February 1995. Since the last assessment, the bank has sponsored the Lorena High School football coach's weekly radio show on station 1460. These advertisements were aired each Friday morning during football season. Management indicated its advertising alternatives are limited because of the absence of a local newspaper and the bank's efforts to contain growth.

**Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.**

A review of the bank's Consolidated Report of Condition as of September 30, 1995, revealed a loan-to-deposit ratio of 71.24 percent and a loan to asset ratio of 65.96 percent. The distribution by loan type was as follows:

| LOAN TYPE                          | DOLLAR AMOUNT | PERCENT OF TOTAL LOANS |
|------------------------------------|---------------|------------------------|
| <b>REAL ESTATE:</b>                |               |                        |
| Construction                       | \$ 721        | 4.73                   |
| Residential 1-4                    | 5,056         | 33.14                  |
| Multifamily                        | 23            | 0.15                   |
| Commercial                         | 1,224         | 8.02                   |
| Agricultural                       | 1,141         | 7.48                   |
| <b>CONSUMER:</b>                   |               |                        |
| Open-end credit                    | 0             | 0.00                   |
| All other                          | 2,275         | 14.91                  |
| <b>COMMERCIAL/<br/>INDUSTRIAL:</b> |               |                        |
|                                    | 2,178         | 14.27                  |
| <b>AGRICULTURAL:</b>               |               |                        |
|                                    | 2,398         | 15.72                  |
| <b>STATE/POLITICAL<br/>OBLIG:</b>  |               |                        |
|                                    | 0             | 0.00                   |
| <b>OTHER:</b>                      |               |                        |
|                                    | 242           | 1.58                   |
| Total                              | \$15,258      | 100.00%                |

The chart above illustrates the bank's major lending position as a retail, agricultural, consumer, and residential mortgage lender. Increases were realized in the loan types listed, including a 461 percent increase in agricultural loans, from \$196 thousand at the previous assessment as of May 23, 1994 to \$1.1 million at this assessment. This information indicates that the bank extends credit, by general type, consistent with its CRA statement of credits.

According to the Uniform Bank Performance Report (UBPR) as of September 30, 1995, the bank's loan mix compared to peer (similar size institutions) was as follows:

| <b>LOAN TYPE</b>            | <b>BANK<br/>Loan Mix</b> | <b>PEER<br/>Loan Mix</b> |
|-----------------------------|--------------------------|--------------------------|
| Construction/Development    | 4.86                     | 2.15                     |
| 1-4 Family Residential      | 30.36                    | 27.95                    |
| Home Equity Loans           | 0.00                     | 0.07                     |
| Other Real Estate Loans     | 14.56                    | 16.52                    |
| Total Real Estate:          | 49.78                    | 52.37                    |
|                             |                          |                          |
| Financial Institution Loans | 0.00                     | 0.00                     |
| Agricultural Loans          | 22.29                    | 24.93                    |
| Commercial/Industrial Loans | 11.57                    | 13.41                    |
| Loans to Individuals        | 14.36                    | 16.45                    |
| Municipal Loans             | 0.00                     | 0.07                     |
| Acceptances of Other Banks  | 0.00                     | 0.00                     |
| Foreign Office Ln and Ls    | 0.00                     | 0.00                     |
| All Other Loans             | 2.00                     | 0.12                     |

In addition, the bank's net loan to deposit ratio compared to peer was as follows:

**NET LOANS/LEASES TO DEPOSITS**

|                       |                       |
|-----------------------|-----------------------|
| <u>Bank</u><br>64.84% | <u>Peer</u><br>61.31% |
|-----------------------|-----------------------|

A review of the above tables indicates the bank is slightly higher than peer in the areas of one-to-four residential loans. Again, reflecting the bank's status as a very competitive retail lender and in other major lending categories when compared to peer. In both analyses, the bank performs well as a mortgage lender. Contacts within the bank's delineated community indicated a need for mortgage loans. A review of the bank's Home Mortgage Disclosure Act ("HMDA") data revealed the following:

| <b>TOTAL 1994 (HMDA) MORTGAGE LOAN ORIGINATIONS</b> |               |                      |
|---|---------------|----------------------|
| <b>LOAN TYPE</b>                                    | <b>NUMBER</b> | <b>DOLLAR AMOUNT</b> |
| Home Purchase                                       | 16            | \$ 516               |
| Home Improvement                                    | 3             | 20                   |
| Refinancing   | 14            | 513                  |
| Multifamily   | 0             | 0                    |

The above chart shows that the majority of the residential real estate loans are for purchase and refinancing of owner-occupied dwellings. Further analysis of the bank's HMDA data indicates applications were received from all six census tracts in its delineation, as well as 18 tracts within McLennan County, including three of the 16 low-and moderate-income tracts. Of the applications received, four were from low- and moderate-income tracts, and all were approved. Additionally, three applications were received from high minority tracts and were approved, totalling 9.1% of total originations. Of all applications received, most were for conventional home purchase loans.

The bank's performance under this assessment factor is sufficient.

**Assessment Factor J - The institution's participation in governmentally- insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.**

Since the previous assessment, the bank has originated 78 small business loans totalling \$2.6 million. Management's ascertainment efforts have revealed no demand for Small

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The bank is a strong competitor in agricultural lending. During the period of May 1994 through September 1995, the bank has originated 146 agricultural loans for more than nine million dollars.

In an effort to meet an identified need for student loans in its community, the bank is working with an affiliated entity to provide Texas Guaranteed Student Loans. To introduce the program to the delineated community, brochures describing the program requirements were distributed to approximately three thousand customers in their deposit statements during November 1995. In addition, management has met with local school counselors, providing descriptive brochures to inform counselors and students of the program.

The bank's performance under this factor and category is considered acceptable.

### **III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES**

Under this category, the bank is evaluated on the reasonableness of its community delineation, the geographic distribution of its loans and on the effects of opening and closing offices.

#### Reasonableness of Delineated Community

The regulation requires state member banks to prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- to moderate-income neighborhoods. Maps are required to be used to portray community delineations. The regulation requires Federal Reserve System examiners to review the reasonableness of the delineations.

The regulation states that a local community shall consist of the contiguous areas surrounding each office or groups of offices, including any low- and moderate-income neighborhoods in those areas. In preparing its delineation, a bank may use any one of the three bases, as stipulated in the regulation: (1) existing boundaries, such as those of a Metropolitan Statistical Area or counties in which the bank's office or offices are located, (2) the bank's effective lending territory, which is defined as that local area or areas where it makes a substantial portion of its loans and all other areas equidistant from its offices, or (3) any other reasonably delineated local area that meets the purposes of CRA and does not exclude low- and moderate-income areas.

The bank has delineated its community as a four-mile radius of Lorena, including the community of Bruceville-Eddy, Texas. Although the bank's community encompasses portions of six census tracts, none of the tracts within or adjoining the bank's delineation are identified as low- and moderate-income or high minority, according to the 1990 census bureau data. Nevertheless, the bank's record of mortgage lending indicates that it makes loans to low- and moderate-income and high minority census tracts. Therefore, the delineated community does not exclude any areas that the bank could reasonably be expected to serve.

**Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.**

The Policy Statement states that the services the bank chooses to offer should be distributed within the bank's community in a fair and nondiscriminatory manner, in keeping with the bank's general approach to its business.

In an effort to gauge the bank's loan distribution, a system has been developed to analyze the bank's loans and deposits. The geoanalysis results are aggregated and presented to the board semi-annually. The bank divides its loans by loan types (installment, commercial, and mortgage) by primary lending area, Lorena and Bruceville-Eddy; a secondary lending area consisting of cities and towns within a 30-mile radius of Lorena; and a tertiary lending area, those cities which are beyond a 30 mile radius of Lorena. The bank lists the number of loans per city/town in the primary and secondary lending areas, then totals the numbers for the tertiary lending area. For each category, a percentage of the total number of loans and dollar amounts are calculated for that period. Once all the figures have been calculated, the numbers and amounts are aggregated for each lending area and compared to the previous period.

The bank's most recent analysis (as of September 1995) indicates that 36.49% of accounts (22.06% of the dollars) are originated in the bank's primary lending area. Secondary area lending accounts for 52.92% of accounts and 58.66% of dollars. Lending in other areas comprise 10.58% of the accounts and 19.28% of the dollars. Management indicated the high numbers in the secondary lending area is attributable to the bank's increased agricultural lending (especially in surrounding areas), and the numbers fluctuate in relation to the seasonality of the farming industry.

The examiners' analysis of the bank's lending patterns revealed 53.5% of dollar amount and 56.7% of number of approvals in primary area; 43.3% of approved loans and 46.5% of dollar amount in the bank's secondary area. Therefore, the examiners' analysis indicated most of the bank's loans are originated in Lorena and the Bruceville-Eddy locations. No evidence was found to indicate any discriminatory patterns or practices.

The bank's performance under this assessment factor is fair.

**Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.**

The bank's business hours are as follows:

Lobby:

Monday through Thursday . . . . . 9:00 a.m. to 2:00 p.m.  
Friday . . . . . 9:00 a.m. to 6:00 p.m.

Drive Thru:

Monday through Thursday . . . . . 7:30 a.m. to 5:30 p.m.  
Friday . . . . . 7:30 a.m. to 6:00 p.m.  
Saturday . . . . . 9:00 a.m. to 12:00 p.m.

The bank's hours and services appear to sufficiently meet the convenience and needs of the bank's delineated community.

The bank has not formulated an office opening and closing policy. Management indicated it has no immediate plans to open another facility; however, if the decision is made to open a branch, a policy will be developed to ensure appropriate issues are considered.

**IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES**

Under this category, the bank is evaluated on its compliance with anti-discrimination and other related credit laws, including efforts to avoid illegal prescreening of potential applications.

**Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA statement(s).**

The bank's CRA statement indicates that the following types of credit are available to members of its community:

- Commercial Loans
- Consumer Loans
- Residential Loans (1-4 family units)
- Housing Rehabilitation Loans
- Farm Real Estate Loans
- Home Improvement Loans
- Commercial Development Loans
- Small Business Loans
- Agricultural Loans

A review of the examination sample of loans indicates that the bank extends loans by general type, according to its CRA statement of credits.

**Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.**

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations.

The examiners' review of the bank's procedures for accepting and evaluating applications revealed no practices indicating any prohibited treatment of applicants.

**V. COMMUNITY DEVELOPMENT**

Under this category, the bank is evaluated on its participation in community development and/or other factors relating to meeting community credit needs.

**Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.**

In an effort to be supportive of community development projects and programs, the bank serves as the depositor for Lorena Independent School District, the city of Calvert, and Falls County Water Control Improvement District. Deposit accounts for these entities total in excess of \$31 million. In addition, two loans to the city of Lorena have been originated since the last assessment in excess of \$47 thousand. Another loan to the city originated in July 1994 has a current balance of \$28 thousand. More evidence of the bank's investment in the community is its originations of six loans to area churches in the aggregate amount of \$214 thousand since the previous assessment. Included in the total church loans are two loans to churches with predominantly minority memberships.

To assist in the on-going efforts of community development, the bank has purchased city of Lorena Tax and Revenue Certificates of Obligation with a current balance of \$42 thousand originally for the improvement of the city's water and sewer systems. Furthermore, the bank also has General Obligation Refunding Bonds for McLennan County totalling \$100 thousand.

The bank's efforts under this assessment factor are good.

**Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.**

As the only bank in Lorena, factors which might impede the bank's ability to meet community credit needs relate only to the bank's ability to maintain adequate capital requirements. Otherwise, the bank's ability is not restricted by any of the above factors.

For additional information, please refer to the community and bank profiles at the beginning of this assessment.

**Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.**

Bank management and staff are very involved in community organizations. President Minor is a member of the Lorena 2000 which is a group formed to ensure the educational needs of Lorena are met. Currently, the group has identified a need for a new middle school and plans are to promote a bond program to ensure the needs of students are met in the near future. Moreover, the bank recently initiated a program to open savings accounts for students attending Lorena Elementary School. The bank has purchased instructional videos to be used in classrooms to teach students the value of saving money. In addition, flyers were sent home with students informing parents of the savings account program. In order to open an account, each child must deposit one dollar. At the last parent teachers association meeting in the fall of 1996, the bank will present a cash donation matching dollar for dollar all interest earned by the students, up to \$1 thousand.

Since the last assessment, donations totalling \$8 thousand have been made, including \$2 thousand to Falls County Youth Livestock Show and \$1 thousand to McLennan County Youth Livestock Show. Additionally, the bank's facilities are used by churches and schools for car washes and community group meetings, etc. The president has also made presentations to the Lorena High School economics class regarding the application process for small business loans. The bank is also a Future Farmers of America sponsor and attends special events, bidding on livestock during the year.

Overall, the bank's performance in this factor and category is excellent.