

PUBLIC DISCLOSURE

January 8, 1996

**Bank of Livingston
1007453/11484745**

**P.O. Box 1048
Livingston, Texas 77351**

Federal Reserve Bank of Dallas

**2200 North Pearl Street
P.O. Box 655906
Dallas, Texas 75265-5906**

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 Bank of Livingston, Livingston, Texas**, prepared by **The Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of January 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

Subject bank is the smallest of the three financial institutions in Livingston. Its loan to deposit ratio is also lower than the three institutions in the area to which it was compared. However, the bank's peer data (similar size banks) as of September 1995 reflects loans to individuals that exceeds peer by three times. Also, subject bank's loan mix of commercial/industrial and 1-4 family residential loans appears comparable. All three of aforementioned banks to which the subject institution was compared with have been in existence since the early 1900s.

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

BANK OF LIVINGSTON, LIVINGSTON, TEXAS PERFORMANCE LEVELS			
SMALL INSTITUTION ASSESSMENT CRITERIA	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	No complaints were received since the last examination		

DESCRIPTION OF INSTITUTION

The Bank of Livingston, Livingston, Texas, has assets totalling \$42.6 million. It is primarily retail oriented in its lending emphasis and has one full service branch located 14 miles northwest of Livingston on Highway 190 in Onalaska, Texas. Management indicated no immediate plans for expansion or acquisition of additional branch facilities.

The bank's ability to meet various community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area(s), demographic and economic factors present in the assessment area(s), and the lending opportunities available in the institution's assessment area(s). The bank's trade area is Polk County, which continues to rely on the timber industry and resort activity generated by the local lake (Lake Livingston) as its primary sources of revenue. Also, the presence of the state prison (The Texas Department of Criminal Justice-Charles T. Terrell Unit) has provided employment and increased residential and mobile home sales in the area. The move to a new branch office in Onalaska during August 1995 improved customer traffic because of a more accessible location. As of the examination date, the branch accounted for 29 percent of total deposits. Although the bank competes with two local banks in Livingston, each with assets exceeding \$100 million, management believe its smaller size and good locations will continue to contribute positively to the bank's future prospects.

The asset distribution by loan type was as follows:

LOAN TYPE	DOLLAR AMOUNT	PERCENT OF TOTAL LOANS
REAL ESTATE:		
Construction	\$ 248	2.13
Residential 1-4	2,653	22.74
Multifamily	0	0.00
Commercial	1,068	9.15
Agricultural	0	0.00
CONSUMER:		
Open-end credit	140	1.22
All other	6,460	55.36
COMMERCIAL/INDUS TRIAL:	1,064	9.12
AGRICULTURAL:	13	0.11
STATE/POLITICAL OBLIG:	0	0.00
OTHER:	21	0.17
Total	\$11,669	100.00%

The above table indicates that the majority of the bank's loans are made in the areas of consumer and residential 1-4 family lending; 55.36 and 22.74 percent, respectively.

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

LOAN TYPE	BANK Loan Mix	PEER Loan Mix
Construction/Development	1.21	00.95
1-4 Family Residential	23.37	27.12
Home Equity Loans	0.00	0.02
Other Real Estate Loans	10.16	19.67
Total Real Estate:	34.75	50.71
Financial Institution Loans	0.00	0.00
Agricultural Loans	0.07	12.98
Commercial/Industrial Loans	9.34	12.90
Loans to Individuals	55.31	15.22
Credit Card Loans	1.21	0.10
Municipal Loans	0.23	0.26
Foreign Office Ln and Ls	0.00	0.00
All Other Loans	0.31	0.16

DESCRIPTION OF *Polk County, Texas*

The bank has defined its assessment area as Polk County, Texas. Livingston is located approximately 80 miles north of Houston, Texas on U.S. Highway 59 and is the county seat of Polk County. Timber is the primary resource in the area and Polk County is the state's number one timber-producing county. Major employers in the county are Champion International, the Texas Department of Criminal Justice-Charles T. Terrell Unit, Wal-Mart Supercenter, Livingston ISD and Polk County. Many people are attracted to the area because of Lake Livingston, located 12 miles northwest of Livingston, the largest lived-around lake in Texas.

According to the 1990 census, the ethnic composition for Polk County is 80 percent Anglo, 13 percent Black, 5 percent Hispanic and 2 percent Other. In addition, the 1990 census indicated the per capita income of residents in Polk County is \$9,974 and \$10,092 for Livingston residents. Polk

County is comprised of five census tracts. None of the census tracts are considered low-income tracts; however, one tract is a moderate-income tract. The other four census tracts are middle income. The median household income for the moderate-income tract is \$18,792, as indicated by census information.

The Polk County Chamber of Commerce community data profile indicates the city and county's population increased approximately 24.3 and 68.8 percent, respectively, between 1970 and 1980. Between the years of 1980 and 1990, the city and county's population increased approximately 1.8 and 25.7 percent, respectively. The majority of the growth in population has been in Polk County. The total population for the assessment area is 30,687. The population is 80.4 percent White, 12.6 percent Black, 0.2 percent Asian, 4.8 percent Hispanic, and 2.0 percent American Indian. Unemployment in the assessment area is 7.8 percent, according to the 1990 census data.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending Analysis

The institution's average loan-to-deposit ratio is reasonable in light of its performance context, which includes the institution's capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area(s), demographic and economic factors present in the assessment area(s), and the lending opportunities available in the institution's assessment area(s).

The bank's average loan-to-deposit ratio since the last consumer affairs examination as of November 14, 1994, is 26.96 percent. Loan to deposit ratios (since December 1994) for three area institutions were compared. Those entities and their ratios are as follows: First State Bank, Livingston, Texas (33.16 percent); First National Bank, Livingston, Texas (27.70 percent); and Citizen's State Bank, Corrigan, Texas (48.75 percent). Discussions with management and community contacts indicated the bank in Corrigan has a monopoly on the entire market. The major employers in Corrigan are two paper mills (Louisiana Pacific Corporation and Champion International), which would indicate that available customers are more likely to be young and more apt to borrow. In addition, bank management said residents of Corrigan are somewhat resentful of the southern portion of the county because they feel the area receives undue attention and benefits from most state, federal and local programs. Also, people in Corrigan are unwilling to drive to Livingston to bank when they can easily drive to Lufkin, Texas to conduct banking activities they are unable to handle in Corrigan. In contrast, Livingston's close proximity to Lake Livingston makes it more accessible to members of the retirement community. According to the profile of Polk County, approximately 16.2 percent of Polk County residents are 65 years old and over, which is over 29 percent above the national average. The Polk County community profile information also revealed Livingston is the national headquarters for Escapees, Inc., which is a 30,000 member organization of recreational vehicle owners who list Livingston as their home. At any one time, 500 Escapees reside at their headquarters south of Livingston. The organization provides numerous services for its members such as health care

services and an adult day care center. Community contacts indicated a concentration of retired persons lived in the area around Lake Livingston.

In the past, the bank has experienced rapid deposit growth which decreased the loan-to-deposit ratio and deteriorated the bank's net interest margin and earnings. According to management, as of the end of 1992, the bank had slowed and held growth to allow capital to catch up with assets, thereby improving earnings. Management stated that the number of qualified applicants in the area is low and competition with larger banks for loans is fierce. Also, management stated the bank's large portion of consumer loans might contribute to its apparently low loan-to-deposit ratio as compared to peer.

A comparison of the bank's loan mix to peer indicates that the bank has a higher concentration (\$5.9 million) of lending to individuals. It appears that both the bank and peer are meeting the 1-4 residential mortgage lending needs of the community. The bank is considerably lower than peer in total real estate lending, and is slightly lower than peer in the 1-4 residential lending area. The bank's strength lies in its ability, as a smaller institution, to serve the special needs of its customers, while still providing products and services which meet the needs of its entire assessment area. During the assessment, three contacts with representatives from local government agencies were made. The community contacts indicated a need for affordable housing and other alternative means for qualifying for housing loans. According to one contact, the prison has brought new employment opportunities and new residents to the area; however, many of the people employed are in minimum-wage positions and are unable to afford adequate housing because of a lack of available housing and funding for low- and moderate-income facilities.

Comparison of Credit Extended Inside and Outside of the Assessment Area(s)

A majority of loans and other lending related activities have been extended in the assessment area. Therefore, the institution meets the standards for "Satisfactory" under this performance criteria.

A review of the loans sampled from January 1, 1995, through November 30, 1995, indicated that a majority of loans were inside the bank's assessment area. For the number of loans sampled for this period, 88.2 percent of the loans were inside the assessment area and 83.7 percent of the dollar volume was inside the bank's assessment area.

Distribution of Credit Within the Assessment Area(s)

The distribution of credit within the assessment area appears to penetrate borrowers of all income levels. This is based upon the range of loans made to the bank's customer base and the sample of loans reviewed during the assessment. Further, a review of loans to businesses encompassed

transactions extended to businesses of different sizes.

Review of Complaints

The institution has not received any written complaints about its CRA performance.

Discrimination

No substantive violations involving illegal discrimination or discouragement were noted.