

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

First State Bank of Matador

1025 Main

Name of Institution

Street

Matador

Motley

City

County

Texas

79244

State

Zip Code

Mario E. Fuentes

Examiner-in-Charge

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## 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 State Bank of Matador, Matador, Texas** prepared by the **Federal Reserve Bank of Dallas**, the institution's supervisory agency, as of November 4, 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**.

The major factor contributing to the bank's satisfactory rating was the distribution of agricultural loans throughout the assessment area by operating revenue, which was further strengthened by an evident willingness of the bank to make small dollar loans. Analysis of the agricultural loan sample determined that 71% of the loans were made to farm operations with gross revenues of \$250 thousand or less and 70% of the farm loans were made for amounts of \$5,000 or less. Analysis of the motor vehicle loan sample revealed that 55% of the loans were made for amounts of \$5,000 or less and 67% were secured by cars or trucks that were aged 6 years or older, evidencing the bank's willingness and above-average efforts to meet the credit needs of the community.

*The following table indicates the performance level of First State Bank of Matador, Matador, Texas, with respect to each of the five performance criteria.*

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST STATE BANK OF MATADOR MATADOR, TEXAS 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	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

First State Bank of Matador, Matador, Texas, (FSB) is a wholly-owned subsidiary of Baylor Bancshares, Inc., Seymour, Texas. The bank's only office is located at 1025 Main Street and offers agricultural, commercial, and consumer loans, checking and certificate of deposit accounts, and other banking products and services. At the last CRA examination conducted as of May 30, 1995, FSB received an overall satisfactory rating.

As of June 30, 1996, the bank reported total assets of \$9.0 million. Net loans and leases represented 12.0% of total deposits. As indicated in the following chart, the bank's primary lending focus continues to be in agricultural-related loans. Agricultural and farm-related real estate loans comprised 51.4% of the bank's loan portfolio as of June 30, 1996, which has declined slightly from the 57.0% figure as of June 30, 1995.

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 44	4.12
Residential 1-4	12	1.12
Agricultural	100	9.35
Total Real Estate	156	14.59
Consumer:		
All other	197	18.43
Commercial and Industrial	263	24.60
Agricultural	449	42.00
Other	4	0.38
Total	\$1,069	100.00%

FSB's ability to meet community credit needs has not been hampered by demographic factors present in the assessment area. However, it appears economic and other systemic factors outside of the bank's control have limited available lending opportunities and the bank's small legal lending limit has limited FSB's capacity to lend in the assessment area.

As of June 30, 1996, FSB's total loans are down by \$176 thousand or 14.1% from June 30, 1995. According to President Roy G. Hobbs, loan volume is below levels of a year ago by \$500 thousand as of the first week of November, 1996. The overall economy has been slow over the past three years due to below average crops and low cattle prices resulting from drought conditions, which has weakened loan demand. The local economy is driven by the agricultural sector and suffers from a lack of diversification. Approximately 80-90% of the economy's gross domestic output and 33% of the workforce are directly or indirectly-related to the farming industry. As a result of the weak economy, a local cafe closed its doors and a local gravel mining operation may cease operations in the near

future. However, it appears that the local economy has stabilized and appears to be improving, as above-average rains this summer have led to a recent strong peanut crop harvest and should lead to a good cotton crop in the next few weeks. Temporary employment, sales, and tax revenues were boosted during the past year when Caprock Telephone Company (GTE) laid fiberoptic communication cables in the area. The other major employers in the area are a CVC/plastic pipe manufacturing company and a jewelry manufacturing and retail operation. These two companies employ approximately 60 individuals in Roaring Springs, Texas, which is located 16 miles south of Matador, Texas.

President Hobbs noted that an increasing number of the ranches in Motley County have been purchased by nonlocal corporations that lease the land to local tenant farmers. These entities do not borrow, retain funds, or reinvest money in the local economy. Approximately one-third of the county's ranch land is owned by Koch Industries, Inc., Wichita, Kansas. Beyond that, President Hobbs indicated the bank's small \$100 thousand legal lending limit has forced large agricultural farmers to seek loans from larger, nonlocal banks.

## DESCRIPTION OF MOTLEY COUNTY

The bank has identified its assessment area as Motley County, which lies in the northwest, "Panhandle" portion of the state of Texas. The city of Matador, Texas, serves as the county seat of Motley County and is located approximately 90 miles northeast of Lubbock, Texas. The 1990 United States Census (Census) estimated the total population for the assessment area at 1,532, with approximately one-half of this total residing in Matador, Texas.

The 1990 Census median family income (MFI) for the bank's assessment area was \$21,591. Based upon this figure, the block numbering area (BNA) representing the southern half of the county, including the cities of Matador and Roaring Springs, Texas, is considered to be a middle-income BNA. The BNA comprising the northern half of the county, including the city of Flomot, Texas, is considered to be a moderate-income BNA. According to 1990 Census data, approximately 41.4% of the families residing in the bank's assessment area are considered to be low- or moderate-income families, with 29.7% being low-income and 16.7% being moderate-income families. Further analysis revealed that the percentages of low- and moderate-income families residing in the southern and northern BNAs were 38.8% and 52.4%, respectively.

Community contacts held during the examination indicated that the local economy was stable, but was experiencing little or no growth due to a lack of diversification. As noted earlier, the overall economy is heavily concentrated in the agricultural sector and needs to attract new, diversified employers such as manufacturing, distribution and retail companies. While community contacts felt that the bank was actively involved in the affairs of the community and had sufficient lending capacity and capability, both indicated that the bank could do more to meet the community's credit and banking needs. They noted that the bank's overly conservative lending standards make it difficult for small business owners to obtain loans, which are needed to help diversify the economy. In fact, they mentioned that three small business owners obtained start-up, working capital loans from nonlocal banks after similar loan requests were denied by FSB. Furthermore, they

indicated that while the community has had an affordable housing shortage for some time, the bank does not offer residential mortgage loans. President Hobbs stated that there is not much demand for residential mortgage loans, as the city is surrounded by ranch land which is owned by private, nonlocal investors and/or corporations and lacks land for further expansion. He also noted that the bank would make only a few real estate loans a year, which would be unprofitable. Finally, the community contacts felt that the bank should offer interest-bearing savings accounts for low- and moderate-income individuals and an ATM for the convenience of local residents and visitors to the area.

In order to address the economy's lack of diversification and affordable housing situation, the Motley County Chamber of Commerce (Chamber) was formed several years ago to attract new companies to the area. President Hobbs is one of twelve executive directors who meet on a monthly-basis to coordinate the group's efforts in expanding and diversifying the local economy. As of this date, they have been unsuccessful due to a lack of a coordinated effort, available land for a prospective business to build on, and the affordable housing shortage which is one of the major factors that companies consider when relocating to a community. Since the Chamber lacks the financial resources to purchase land, it is anticipated that some type of swap arrangement involving land for tax abatements or other concessions will be necessary to acquire a large parcel of land adjacent to the city for future commercial and residential development.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **LOAN TO DEPOSIT RATIO**

The bank's quarterly average loan-to-deposit (LTD) ratio is considered to be less than reasonable and in need of improvement in consideration of its performance context, which includes the institution's capacity to lend, the capacity of other similarly-situated institutions to lend in counties adjacent to the bank's assessment area, existing demographic and economic factors, and the lending opportunities available in the institution's assessment area.

FSB's quarterly average LTD ratio since the last examination equaled 15.2%. As of June 30, 1996, the bank's net loans represented 12.0% of total deposits, which fell significantly below the bank's national peer group level of 58.4%. According to President Hobbs, FSB's low LTD ratio can be attributed to weak agricultural loan demand, the bank's small legal lending limit, stiff farm loan competition from the larger and less regulated local Rolling Plains Production Credit Association office (RPPCA), the bank's large public fund deposit base which averages about \$1.9 million, and FSB's business decision not to offer residential mortgage loans. Furthermore, President Hobbs indicated that the bank's ultra-conservative lending philosophy was another reason for FSB's relatively low LTD ratio. This was confirmed by the community contacts, who mentioned that the bank's loan underwriting standards were overly restrictive and its interest rates were less than competitive.

Since there are no other banks operating within Motley County, FSB's quarterly average

LTD ratio was compared with eight banks operating in adjacent or neighboring counties. Four of the eight banks were considered to be similarly-situated institutions based upon their respective asset sizes, loan portfolio mixes, and other factors. As of June 30, 1996, these four similarly-situated institutions had total assets ranging from \$21.5 to \$36.7 million, concentrations in agricultural-related loans as a percentage of total loans ranging from 51.1% to 68.0%, and quarterly average LTD ratios ranging from 33.6% to 59.1%. It is interesting to note that while these banks have had to deal with similar economic problems resulting from the afore-mentioned agricultural drought, all four similarly-situated banks had higher LTD ratios that have been increasing while FSB's low LTD ratio has decreased from 15.3% as of June 30, 1995. Also, the RPPCA office's year-to-date loan volume is approximately \$800 thousand above levels one year ago, further evidencing an improving regional agricultural industry with increasing loan demand.

### **LENDING IN ASSESSMENT AREA**

The bank met the standards for satisfactory performance, as a substantial majority of the 141 loans sampled were made inside the bank's assessment area. Overall, 84% of the loans sampled on a number-basis and 75% on a dollar-basis were made inside the bank's assessment area. An analysis of each specific loan product category reached a similar conclusion. Of the 57 motor vehicle loans sampled, 86% on a number-basis and 73% on a dollar-basis were made inside the bank's assessment area. Of the 84 agricultural loans sampled, 83% on a number-basis and 76% on a dollar-basis were made inside the bank's assessment area.

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

The bank's distribution of loans in its assessment area by gross revenue, borrower income, and dollar amount of loans met the standards for satisfactory performance. Examiner analysis included a review of 57 motor vehicle loans and 84 agricultural loans extended during the twelve-month period from October 1, 1995, through September 30, 1996.

As the following chart demonstrates, analysis of the bank's distribution of agricultural loans by farm revenue was limited by the fact that the bank did not collect revenue information for 32 of the 70 farm loans made inside the bank's assessment area or 45.7%.

The analysis was further limited by the fact that the 38 loans with farm operating data made inside the assessment area were extended to only 18 individual farmers. Of the 38 farm loans with revenue data, 26% were made to farm operations with gross revenues less than \$100 thousand and 71% were extended to farm operations with gross revenues of \$250 thousand or less.

AGRICULTURAL LOAN SAMPLE WITHIN ASSESSMENT AREA BY INCOME LEVEL *				
NUMBER OF LOANS		GROSS REVENUES (GR)	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
10	26	GR under 100M	\$62	22
17	45	100M to 250M	96	33
11	29	251M to 500M	129	45
38	100%	Totals	\$287	100%

In order to mitigate the lack of farm revenue information on a substantial portion of the agricultural loans made inside the bank's assessment area, an analysis by loan amount was performed. As detailed in the next chart, approximately 70% of the agricultural loans were originated for amounts less than \$5,000, which clearly demonstrates the bank's willingness and above-average efforts to meet the community's credit needs, in particular for small farm loans.

AGRICULTURAL LOAN SAMPLE WITHIN ASSESSMENT AREA ANALYSIS BY DOLLAR AMOUNT		
DOLLAR LEVEL CATEGORY	NUMBER	PERCENTAGE OF TOTAL
\$0 - \$1,000	17	24
\$1,001 - \$5,000	32	46
\$5,001- \$10,000	11	16
\$10,001- \$25,000	7	10
\$25,001 OR ABOVE	3	4
TOTALS	70	100%

Typically, the motor vehicle loan sample would be evaluated for its lending to borrowers

of different income levels based upon the 1995 Texas Nonmetropolitan Statistical Area Median Family Income level of \$28,700, which is updated by the Office of Housing and Urban Development on an annual-basis. Due to the fact that the bank does not require credit applications or borrower income statements for individual credit requests, none of the 49 motor vehicle loans made inside the bank's assessment area had borrower income information. Analysis of the borrower income distribution of the 49 motor vehicle loans made inside the bank's assessment area was performed utilizing both the loan amount and the age of the collateral pledged as proxies for borrower income information in order to evaluate the bank's distribution of credit by borrower income.

As shown in the following chart, an analysis by dollar amount of the motor vehicle loan sample revealed that 45% of the motor vehicle loans were originated for amounts less than \$1,000 and 55% were made for amounts less than \$2,500:

MOTOR VEHICLE LOAN SAMPLE WITHIN ASSESSMENT AREA ANALYSIS BY DOLLAR AMOUNT *		
DOLLAR LEVEL CATEGORY	NUMBER	PERCENTAGE OF TOTAL
\$0 - \$1,000	22	45
\$1,001 - \$2,500	5	10
\$2,501- \$5,000	8	16
\$5,001 OR ABOVE	14	29
TOTALS	49	100%

Beyond that, a review of the 48 motor vehicle loans made inside the bank's assessment area, excluding one motor vehicle loan with undisclosed collateral securing the note, found that 67% were secured by cars or trucks aged six years or older. It is evident that the bank is making considerable efforts to make motor vehicle loans to all members of the community, including low- and moderate-income borrowers, based upon the number of small dollar loans and loans secured by collateral aged 6 years or older.

MOTOR VEHICLE LOAN SAMPLE WITHIN ASSESSMENT AREA ANALYSIS BY COLLATERAL AGE *		
AGE OF COLLATERAL	NUMBER	PERCENTAGE OF TOTAL
1-5 YEARS	16	33
6-10 YEARS	19	40
11-15 YEARS	12	25
16+ YEARS	1	2
TOTALS	48	100%

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

Overall, the bank's geographical lending distribution was considered reasonable and met the standards for satisfactory performance. Analysis by BNA was somewhat limited due to the fact that there were only two BNAs comprising the bank's assessment area. There did not appear to be any apparent gaps in the bank's distribution of loans among or within the 2 BNAs. The moderate-income, northern BNA's population comprised 17.6% of Motley County's total population and received 14.3% on a number-basis and 29.5% on a dollar-basis of the loans made inside the assessment area. The middle-income, southern BNA's population comprised 82.4% of Motley County's total population and received 85.7% on a number-basis and 70.5% on a dollar-basis of the loans made inside the assessment area.

President Hobbs and Baylor Bancshares, Inc.'s Compliance Officer D. D. Wall indicated that this lending pattern matched the bank's internal findings and analysis of the bank's geographical distribution of loans made in Motley County in the past year. Furthermore, since all loan customers have post office boxes, coupled with the absence of zoning requirements, and no clear divisions or concentrations of low-, moderate-, middle-, or upper-income families in the assessment area, further geographical distribution analysis within each BNA would not be meaningful.

## **RESPONSE TO COMPLAINTS**

The bank has not received any written CRA performance-related complaints since the last examination.

## **COMPLIANCE WITH ANTIDISCRIMINATION LAWS (ECOA, FHA, OR HMDA)**

No violations involving illegal discrimination or discouragement were noted during the examination.