

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Wellington State Bank

Name of Institution

Wellington

City

Texas

State

Diane van Gelder

Examiner-in-Charge

1000 Eighth

Street

Collingsworth

County

79095

Zip Code

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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 **Wellington State Bank, Wellington, Texas**, prepared by the **Federal Reserve Bank of Dallas, dallas, texas**, the institution's supervisory agency, as of September 23, 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 loans throughout the assessment area by borrower income and business revenue, which was further strengthened by a willingness of bank management to make small dollar loans. Analysis of the consumer loan sample revealed that 57% of the loans were made to low- and moderate-income borrowers and 47% of the loans were made for amounts of \$5,000 or less. Also, a sample review of motor vehicle loans found that 59% were secured by cars or trucks that were aged 6 years or older, further evidencing the bank's willingness and outstanding efforts to meet the credit needs of the community. Analysis of the agricultural loan sample determined that 52% of the loans were made to farm operations with gross revenues of \$250 million or less and 66% of the farm loans were made for amounts of \$25,000 or less.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	WELLINGTON STATE BANK WELLINGTON, 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

Wellington State Bank, Wellington, Texas (WSB), is a wholly-owned subsidiary of Wellington Bankshares, Inc., Wellington, Texas. The bank's main office is located at 1000 Eighth Street, while it has three branches in Childress, Memphis, and Wheeler, Texas. All locations offer full deposit, loan and banking services with convenient banking hours. In addition, an ATM is available at the Childress branch. The Childress and Memphis branches were opened in January 1996 when WSB purchased the deposits of two Bank of America branches. At the last CRA examination conducted as of June 26, 1995, WSB received a satisfactory rating.

As of June 30, 1996, the bank reported total assets of \$80.7 million. Net loans and leases represented 70.1% 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 46.2% of the bank's loan portfolio as of June 30, 1996, in comparison to 45.4% as of June 30, 1995.

LOAN TYPE	DOLLAR AMOUNT	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 222	0.42
Residential 1-4	4,723	8.97
Commercial	3,245	6.16
Agricultural	4,970	9.44
Total Real Estate	13,160	24.99
Consumer:		
All other	6,917	13.13
Commercial and Industrial	12,505	23.74
Agricultural	19,368	36.77
State and Political	363	0.69
Other	357	0.68
Total	\$ 52,670	100.00%

Overall, the bank's ability to meet 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, demographic or economic factors present in the assessment area, or the lending opportunities available in the institution's assessment area. Since the last examination, WSB's gross loans have grown by \$17.1 million or 48%. Contrary to normal market conditions, loan demand in the bank's assessment area has actually increased in the past year despite an overall sluggish economy according to President Richard Sims. He mentioned that the overall economy has been slow over the past three years due to below average crops and low cattle prices resulting from drought conditions. The economy is driven by the agricultural sector and suffers from a lack of diversification.

Further analysis revealed that the economies of the five counties comprising the bank's assessment area are similar in terms of their reliance on the agricultural sector as their major industry. However, each appear to differ in terms of the degree of dependence on the agricultural market and their level of diversification. The Childress County economy has picked up as the result of the construction of a minimum security prison four years ago, but is largely dependent on the agricultural and railroad sectors which have suffered from drought conditions and employment cutbacks, respectively. The Hall County economy is primarily driven by cotton production and has suffered heavily from drought conditions; however, the local government has made some progress in diversifying its economy by opening an iron fabrication plant. The Collingsworth County economy is stable and slightly less reliant on the agricultural sector, but has seen some softness in the retail sector as sales are off by 30-35% from normal levels and three businesses have closed in the past year. The Wellington Industrial Committee was successful in attracting a textile and dye mill employing twenty-five people in 1996. The economies of Hemphill and Wheeler Counties are stronger and the most diversified with cattle, oil and gas, and a high deposit base to complement local crop production. It appears that the economic prospects are improving for the overall economy based upon an end to the drought conditions and the strong demand for all types of loans being experienced by WSB in 1996.

DESCRIPTION OF ASSESSMENT AREA

The bank has identified its assessment area as consisting of Childress, Collingsworth, Hall, Hemphill, and Wheeler Counties, which lie in the northwest, "Panhandle" portion of the state of Texas. The bank is headquartered in Wellington, Texas, which serves as the county seat of Collingsworth County and is located about 100 miles southeast of Amarillo, Texas. The 1990 United States Census (Census) estimated the total population for the city of Wellington, Texas, at 2,632 and a combined population for the five counties comprising the assessment area at 23,030. Census populations for each county were: Childress - 5,953; Collingsworth - 3,573; Hall - 3,905; Hemphill - 3,720; and Wheeler - 5,879.

The 1990 Census median family income (MFI) for the bank's assessment area was \$24,088. Based upon this figure, there are zero low-income, two moderate-income, seven middle-income, and three upper-income block numbering areas (BNAs) in the assessment area. According to 1990 Census data, approximately 40% of the families residing in the bank's assessment area are considered low- or moderate-income individuals. However, 68% of those families reside in middle-income BNAs. As a result of this disparity, four of the seven middle-income BNAs report an average income slightly above the 80% MFI limit, ranging from 80.1% to 84.8% of the MFI level. The percentages of low- and moderate-income families residing in Childress, Collingsworth, Hall, Hemphill, and Wheeler Counties were 45.2%, 47.6%, 50.0%, 21.6%, and 35.6%, respectively.

The Department of Housing and Urban Development (HUD) updates MFI on an annual-basis and reports the 1995 Texas Nonmetropolitan MFI at \$28,700. For CRA purposes, borrower income information for a nonmetropolitan areas, such as these five counties, are based upon the latter figure.

Community contacts interviewed during the examination indicated that the local economy was stable, but was experiencing little or no growth in terms of population, employment, and economic development due to a lack of diversification. The overall economy is heavily concentrated in the agricultural sector, which has suffered from drought conditions over the past three years, and needs to attract new, diversified employers such as light and heavy manufacturing companies. The contacts

felt that the bank and its branches were actively involved in the affairs of the community as a whole as well as in each branch territory, had sufficient lending capacity and capability, and were aggressively marketing a comprehensive selection of loan products. However, they indicated that the cities of Childress, Memphis, and Wellington, Texas had been experiencing affordable housing and rental property shortages for quite a while. This has dampened speculative commercial and residential building, as well as the relocation of potential new employers despite the availability of attractive tax abatement programs offered by local taxing authorities. Additionally, several of the community contacts felt that the bank's loan underwriting standards were overly conservative and restrictive, which made it difficult for low- and moderate-income individuals to qualify for home purchase and other consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

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

WSB's quarterly average LTD ratio since the last examination equaled 67.2%. As of June 30, 1996, the bank's net loans represented 70.1% of total deposits, which slightly exceeded the bank's national peer group level of 69.5%. WSB's preliminary August 31, 1996, LTD ratio equaled 75.8%. It is interesting to note that the corresponding August 31, 1996, LTD ratios for each branch were as follows: Wellington - 107.7%; Memphis - 105.8%; Wheeler - 57.7%; and, Childress - 28.8%. WSB's above peer and increasing LTD ratio since the last examination can be mainly attributed to increased agricultural, commercial, and consumer loan demand along with the acquisition of the Memphis, Texas, branch in January 1996. WSB's quarterly average LTD ratio was compared with four banks operating inside the bank's assessment area, which 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 similarly-situated institutions had quarterly average LTD ratios ranging from 25.3% to 65.8%, for an average of 52.5%.

LENDING IN ASSESSMENT AREA

The bank met the standards for satisfactory performance, as a substantial majority of the 200 loans sampled were made inside the bank's assessment area. Overall, 86% of the loans sampled on a number-basis and 80% on a dollar-basis were made inside the bank's assessment area. An analysis of each specific loan product category revealed a similar conclusion. Of the 109 motor vehicle loans sampled, 88% on a number-basis and 89% on a dollar-basis were made inside the bank's assessment area. Of the 91 agricultural loans sampled, 84% on a number-basis and 77% 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 and were considered reasonable. Examiner analysis included a review of 109 motor vehicle loans and 91 agricultural loans extended during the seven-month period from January 1 through July 31, 1996.

As the following chart demonstrates, only a limited analysis of the bank's distribution of agricultural loans by farm revenue could be performed. The bank did not collect revenue information for 53 of the 76 or 69.7% of the farm loans made inside the bank's assessment area. Of the 23 loans with revenue data, 96% were made to farm operations with gross revenues of \$500 thousand or less and 52% 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
5	22	GR under 100M	\$78	4
7	30	100M to 250M	839	37
10	44	251M to 500M	1,093	48
1	4	Over 500M	259	11
23	100%	Totals	\$2,269	100%

* Totals and percentages excluded 44 farm loans for which income data was not available and 9 loans upon which the bank relied upon borrower income information.

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 agricultural loan amount was performed. As detailed in the next chart, approximately 66% of the agricultural loans were originated for amounts of less than \$25,000, which clearly demonstrates the bank's willingness and outstanding 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	NUMBER	PERCENTAGE OF
\$0 - \$5,000	20	26
\$5,001 - \$10,000	9	12

\$10,001- \$25,000	21	28
\$25,001- \$50,000	9	12
\$50,001 OR ABOVE	17	22
TOTALS	76	100%

The motor vehicle consumer loan analysis consisted of analyzing borrower income as a percentage of the 1995 Texas Nonmetropolitan MFI. A breakdown by income range for each income category is detailed below:

1995 TEXAS NONMETROPOLITAN MEDIAN FAMILY INCOME: \$28,700		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0 - 50%	\$14,350
MODERATE-INCOME	51 - 80%	\$22,960
MIDDLE-INCOME	81 - 120%	\$34,440
UPPER-INCOME	121% and over	over \$34,440

Analysis of the motor vehicle and unsecured loan distribution among the various income levels revealed an outstanding distribution of loans, as shown on the following table:

MOTOR VEHICLE LOAN SAMPLE WITHIN ASSESSMENT AREA BY INCOME LEVEL *				
NUMBER OF LOANS		INCOME CATEGORY	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
20	39	Low-income	\$126	31
9	18	Mod-income	84	21
9	18	Mid-income	52	13
13	25	Upp-income	138	35
51	100%	Totals	\$400	100%

* Totals and percentages excluded 45 motor vehicle loans for which income data was not available.

Analysis of the 51 motor vehicle loans made inside the assessment area found that 57% on a number-basis and 51% on a dollar-basis were made to low- or moderate-income borrowers. Both of these percentages exceeded the 40.2% combined Census figure for low- and moderate-income families residing in the bank's assessment area, as well as the respective individual percentages of low- and moderate-income families residing in Childress, Collingsworth, Hall, Hemphill, and Wheeler Counties. Low- and moderate-income families represented 24.4% and 15.8%, respectively, of the assessment area's total population based upon the Census data.

In order to further support the borrower income distribution analysis due to the lack of borrower income information on 45 of the 96 or 46.9% of the motor vehicle loans made inside the bank's assessment area, an analysis by dollar amount of the motor vehicle loan sample was performed. As shown in the following chart, 47% of the motor vehicle loans were originated for amounts of less than \$5,000 and 23% were made for amounts of less than \$2,500:

MOTOR VEHICLE LOAN SAMPLE WITHIN ASSESSMENT AREA ANALYSIS BY DOLLAR AMOUNT *		
DOLLAR LEVEL	NUMBER	PERCENTAGE OF
\$0 - \$2,500	22	23
\$2,501 - \$5,000	23	24
\$5,001- \$10,000	20	21
\$10,001 - \$20,000	22	23
\$20,001 OR ABOVE	9	9
TOTALS	96	100%

Beyond that, a review of the 92 motor vehicle loans made inside the bank's assessment area, excluding new car loans, found that 59% were secured by cars or trucks aged over 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.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the bank's geographic lending distribution was considered reasonable and met the standards for satisfactory performance. The assessment area is comprised of 10 middle or upper income BNAs and two moderate income BNAs. There were no apparent or unexplainable gaps in the bank's distribution of loans among the 12 BNAs. One moderate-income BNA and one middle-income BNA was just above the MFI limit at 82.1%, both of which were located in Hall County and comprised 1.3% and 2.7%, respectively, of the assessment area's total population, received no loans during the seven-month sample period. Memphis Banking Center Branch President Barney Barnett indicated that this could be explained by the following: 1) the Memphis, Texas branch was not opened until January 1996; 2) the banking environment for this city is very competitive, as there were two other established banks operating in the community; and 3) the population of these two BNAs is extremely small, as both are rural in nature. A geocoding analysis of all loans made during the first seven months of 1996 using the bank's internal geocoding system found a reasonable distribution of loans throughout its approximately 40 geocoding regions, with no apparent gaps in the dispersion of loans being noted other than the two previously mentioned.

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.