

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

First State Bank

Name of Institution

Granger

City

Texas

State

Mario E. Fuentes

Examiner-in-Charge

125 E. Davilla/P. O. Box 38

Street

Williamson

County

76530

Zip Code

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CRA PERFORMANCE ASSESSMENT

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, Granger, Texas**, prepared by **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of October 15, 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 bank's rating is primarily supported by the distribution of its consumer loan portfolio which exhibits lending to borrowers throughout the income strata. Approximately 56% of the consumer loans reviewed were to low- or moderate-income borrowers. In addition, approximately 39% of the consumer loans and 58% of the commercial loans reviewed were located in low-or moderate-income census tracts.

First State Bank (FSB) was rated satisfactory at its last CRA assessment dated February 13, 1995.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</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	No complaints were received since the prior examination		

DESCRIPTION OF INSTITUTION

FSB is a subsidiary of First Central Union, Temple, Texas. Its main office is located at 125 E. Davilla, Granger, Texas. FSB's branch location is 813 N. Main, Taylor, Texas. Both offices offer full deposit and lending services.

As of June 30, 1996, the bank reported total assets of \$38.9 million and a loan to deposit ratio of 72.09%. Commercial and industrial loans comprise 29.6% of the loan portfolio and remain the bank's primary lending focus. Consumer lending represents a significant loan product based on the total number of loans booked. Consumer loans totaled \$1.4 million or 5.5% of the portfolio. FSB has experienced rapid growth since the previous examination. As of June 30, 1996, assets grew at a rate of 17.09%; however, loan growth was only 9.43%.

The bank's ability to meet various community credit needs has not been hampered by its capacity to lend. Contacts in the community indicated that the area is experiencing both residential and commercial growth. They also expressed a need for affordable housing programs to meet the needs of the growing population. This problem, in part is a result of a lack of local builders and developer efforts, not necessarily a lack of financing locally.

DESCRIPTION OF WILLIAMSON ASSESSMENT AREA

FSB has defined its assessment area as Williamson County. Williamson County is located in central Texas. Granger is approximately 60 miles northeast of Austin, Texas, on State Highway 95. Williamson County is part of the Austin-San Marcos, Texas, Metropolitan Statistical Area (MSA). Based on the 1990 United States Census, the population of Williamson County is 139,551.

Agriculture is the primary industry in Williamson County. However, the semiconductor manufacturing industry is increasing its presence with the opening of two processing plants in the last few years. In addition, the temperate climate and strong schools have encouraged retirees and young families to move into the area. Besides the semi-conductor facilities, other major employers include county and city governments, school districts and TU Electric.

The 1995 median family income for the MSA is \$43,200. Of the 44 census tracts with population in the assessment area, 2 are considered low income, 6 are considered moderate income, 22 are middle income and 14 are upper income. Approximately 14% of the assessment area's population lives in the low- or moderate- income census tracts. However, 31.5% of the households are considered low- or moderate-income. (Refer to the Income Category chart in Lending to Borrowers of Different Incomes and to Businesses of Different Size section for definitions of income categories.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Based on dollar volume, commercial and industrial loans are the largest segment of the loan portfolio. Consumer loans represent a significant lending function when reviewed

based on the number of loans booked. Samples of 81 consumer loans and 84 commercial loans

made between March 1996 and August 1996 were reviewed to determine CRA performance. No evidence of intentional discriminatory acts or practices was noted during the concurrent consumer compliance examination.

LOAN TO DEPOSIT RATIO

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

The bank's average loan-to-deposit ratio since the last consumer affairs examination is 70.59%. As of June 30, 1996, net loans represented 72.09% of the bank's deposits. The national peer ratio for the same period was 67.31%. To better understand the bank's performance in relation to local financial institutions, a loan-to-deposit ratio analysis was made of four banks in the assessment area which are similarly situated to FSB based on asset size, product mix and other factors. Total assets of one of the banks exceeded those of FSB and the other three were smaller. The loan-to-deposit ratios for these banks ranged from 27.64% to 62.47% for an average of 44.40%. Management indicated the bank purchases a significant number of loans from affiliated organizations. These purchases contribute to FSB's high loan to deposit ratio. As of June 30, 1996, the bank had purchased loans totaling approximately \$5 million.

LENDING IN ASSESSMENT AREA

While a large percentage of the overall lending in terms of dollars is outside of the assessment area the bank's record in this criteria meets the standard for a satisfactory rating, given the low loan demand in the assessment area and the bank's record of meeting the credit needs of the assessment area. Approximately 61% of the loans reviewed were located within the assessment area. However, when analyzed based on dollar volume, only 28% of the bank's lending is inside the assessment area. The following table details FSB's lending within the assessment area by product type.

Lending Inside the Assessment Area				
	Number of Loans	Number Percentage of Loans Sampled	Dollar Volume of Loans	Dollar Percentage of Loans Sampled
Consumer	65	80	456,882	76
Commercial	36	43	945,144	22
Total	101	61	1,402,206	28

Management stated that there is limited loan demand in Williamson County. Information gathered in community contacts by examiners confirmed this statement. As a result, the

bank has sought commercial loans from neighboring Travis County as well as elsewhere in Texas. Management believes these investment type loans are necessary to ensure the bank remains profitable. This can be demonstrated by excluding from the bank's portfolio loans from outside the bank's assessment area. This would result in an adjusted loan to deposit ratio of approximately 22%.

While contacts in the community did not identify any currently unmet credit needs, management is encouraged to continue to seek lending opportunities within the assessment area.

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

A review of the bank's distribution of loans in its assessment area by business revenues and borrower income was performed on the loan sample. An analysis of the loan distribution among the various business revenue levels revealed an acceptable distribution of loans. The sample included 22 loans where business revenue was used in the credit decision. The analysis indicated that of these loans 32% were made to businesses with revenues of less than \$250 thousand. The following table details the bank's lending by business revenue.

COMMERCIAL LOAN SAMPLE		
GROSS REVENUES OF BUSINESS (THOUSANDS)	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS
\$0 - 100	3	14
\$100 - 250	4	18
\$250 - 1,000	9	41
OVER \$1,000	6	27
TOTAL *	22	100

*Excludes 5 loans where the bank used the borrowers' income and 9 loans where the bank did not collect income data.

The consumer loan review consisted of analyzing borrower income as a percentage of the Austin-San Marcos MSA median family income. A breakdown by income range for each category is detailed below:

MSA MEDIAN FAMILY INCOME \$43,200		
INCOME CATEGORY	INCOME RANGE AS A PERCENT OF MEDIAN	UPPER LIMIT OF RANGE
LOW-INCOME	50%	\$21,600
MODERATE-INCOME	80%	\$34,560
MIDDLE-INCOME	120%	\$51,840
UPPER-INCOME	over 120%	over \$51,840

The analysis of consumer lending indicated that 56% of the consumer loans were made to low- and moderate- income individuals. These loans represent approximately 45% of the consumer loans reviewed based on dollar volume where the bank collected income information. The following table summarizes the income analysis.

Loan Sample by Income Level		
	Consumer Loan	
INCOME CATEGORY	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS
LOW-INCOME	13	30
MOD-INCOME	13	30
MID-INCOME	9	20
UPPER-INCOME	9	20
TOTAL *	44	100

*Total does not include 24 loans where the bank did not collect income data.

GEOGRAPHIC DISTRIBUTION OF LOANS

FSB's record of lending throughout the assessment area is acceptable. Of the 44 census tracts in the assessment area 9% are low income, 14% are moderate income, 50% are middle income and 27% are upper income. The table below details the bank's lending by census tract income levels.

	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	#	%	#	%
Consumer	5	8	20	31	33	51	7	11
Commercial	8	22	13	36	12	33	3	8

This table indicates that 39% of the consumer lending and 58% of commercial lending were located in low- or moderate-income census tracts.

RESPONSE TO COMPLAINTS

The institution has not received any written complaints about its CRA performance since the last examination.