

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

First State Bank of Livingston

Name of Institution

Livingston

City

Texas

State

Mary A. Clouthier

Examiner-in-Charge

112 West Polk Street

Street

Polk

County

77351 -1277

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 of Livingston, Livingston, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of December 16, 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 loan-to-deposit ratio is adequate given the institution's size and assessment area credit needs. Additionally, its record of lending is considered strong, with 92% of the loans sampled originated inside the assessment area. The institution's record of providing credit to individuals of different income levels and businesses of different sizes is satisfactory. The bank extended 41% of the consumer loans sampled to low- and moderate-income borrowers. Further, the commercial loan analysis disclosed that the bank originated 72% of the loans sampled to businesses with revenues of less than \$250 thousand and 98% of the loans sampled were in amounts of less than \$50 thousand.

DESCRIPTION OF INSTITUTION

First State Bank of Livingston's (Livingston) main office is located in Livingston, Texas. In addition to this office, the bank operates a full service branch office in Shepherd, Texas. The bank opened this branch in July of 1995. The institution provides a full range of deposit services and loan products including mortgage, commercial, agricultural, and consumer loans. The bank's competitors include First National Bank and Bank of Livingston in Livingston, Texas and Peoples State Bank in Shepherd, Texas. Livingston received an overall Satisfactory rating at the last Federal Deposit Insurance Corporation CRA examination as of December 3, 1993.

The bank reported total assets of \$152 million as of June 30, 1996. Net loans and leases represented 34% of total deposits as of this date. The distribution of the bank's loan portfolio as of June 30, 1996 is profiled on the following chart:

| LOAN TYPE | DOLLAR AMOUNT | PERCENT OF TOTAL LOANS |
|---------------------------|----------------------|-------------------------------|
| Real Estate: | | |
| Construction | \$ 622 | 1.26% |
| Residential 1-4 | 12,318 | 25.04 |
| Multifamily | 90 | .18 |
| Commercial | 8,175 | 16.62 |
| Agricultural | 852 | 1.73 |
| Total Real Estate | 22,057 | 44.83 |
| Consumer | 12,222 | 24.84 |
| Commercial and Industrial | 12,054 | 24.50 |
| Agricultural | 940 | 1.91 |
| Other | 1,928 | 3.92 |
| Total | \$49,201 | 100.00% |

As indicated in the preceding chart, the bank's primary lending focus is commercial and consumer loans. Commercial (Real Estate and Non Real Estate) loans comprise 41% of the bank's loan portfolio as of June 30, 1996. Further, consumer loans comprise 25% of the loan portfolio.

The bank's ability to lend has been somewhat hampered by the volume of loan demand in the institution's assessment area. One of the more stabilizing factors in the local economy is the large number of retirees; however, this is also a factor that has limited the bank's lending

opportunities. Demographic information for 1990 shows that 26% of the population in Polk and San Jacinto counties is 60 years of age and over. Retired couples are drawn to the area by the lake and less hurried lifestyle and this segment of the population has been growing in recent years. While this group brings deposits to the institution, loan demand from this segment of the population is very low. Consequently, the bank's gross loans and leases have increased only 12% since December 31, 1993. The majority of this growth is attributed to the commercial loan portfolio which has grown 36% since the prior examination. The institution promotes economic development in the community by offering products and services consistent with its size and financial capacity. Further, the volume of lending is considered adequate given the present economic conditions and loan demand in the area.

DESCRIPTION OF ASSESSMENT AREA

Livingston, Texas, is located in Polk County, approximately one hour northeast of Houston, Texas. The bank has designated Polk and the adjacent county, San Jacinto, as its assessment area. This assessment area includes all geographies where there are branch offices and encompasses whole census tracts. Further, the defined area does not reflect illegal discrimination nor does it arbitrarily exclude any low- and moderate-income areas.

According to 1990 census data, the population total for the bank's assessment area is 47,059. A large percentage of the population, approximately 77%, resides in Polk County. San Jacinto County is more rural and contains the San Jacinto National Forest. According to the census data, the total number of housing units in the market is 28,485 with 14,802 (52%) owner-occupied, and 3,300 (12%) renter-occupied. Additionally, owner occupied housing units in moderate-income areas represent 51% of the total units and upper-income units represent 49%. While there are no low-income geographies inside the assessment area, low-income households comprise 29% of the total households. Two community contacts from a housing authority indicated that there is a need for additional affordable housing for low-income residents in the area. Additionally, the median household income of the bank's assessment area is \$19,129.

The local economy has experienced some growth in recent years and is stable. The economy in Polk County is closely aligned with the Houston economy, especially in relation to existing real estate and the new home market. Timber related industries, the Texas Department of Criminal Justice, and tourism are the local economic mainstays.

Polk County is the number one timber producing county in Texas. Champion International, a wood products company, is the largest employer in the county. The economy in the area is affected when the national home construction market declines because of the large timber interests that exist.

One of the most stabilizing factors in the local economy is the large number of retirees. They provide a financial input into the local economy from such outside sources as pensions, social security checks and private savings, which are dependable and consistent. Retired couples are drawn to the area by the lake, the scenic beauty, and the climate.

In recent years, tourism may have replaced timber as the major industry in Polk County. This was triggered by the completion of Lake Livingston in the late 1960's. The Lake Livingston Recreation Area is a major contributor to the growth in Polk County. Constructed to furnish water to nearby Houston, the lake is a major attraction for retirees and recreational visitors. Additionally, the Alabama-Coushatta Indian Reservation is another strong attraction for tourists.

The contacts indicated that the influx of retirees is being supplemented by an influx of families from the Houston area. Residents can access urban diversity while living in the serenity of rural East Texas. This trend will be facilitated by the scheduled improvement to state highway 59, the major highway that connects the Livingston area with Houston. This road is scheduled to be upgraded to an interstate and should be completed in 5 to 10 years. Additionally, a bridge that connects San Jacinto and Polk Counties is scheduled to open in early 1997. This will also help to boost the economy in both counties by improving the accessibility to the areas. The recent influx of residents has made Polk County one of Texas' fastest growing areas.

The community contacts indicated that the opening of the prison resulted in an increase in job opportunities and low-income residents benefitted as a result. However, the contacts also stated that this did not result in an increase in the number of homeowners since there is presently a large demand for rental units. They stated that this is due to the fact that both existing and new homes prices are high and are not commensurate with the wages paid by the large employers, Champion International and the Texas Department of Criminal Justice.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

The bank's quarterly average loan-to-deposit (LTD) ratio is satisfactory 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 in the bank's assessment area. The bank's average loan-to-deposit ratio since the December 3, 1993, examination is 33.36 percent. The ratio increased slightly from 34.25 percent on December 31, 1993, to 34.74 percent on June 30, 1996. However, the level of the LTD ratio has remained relatively steady since the previous examination. The low level of the LTD ratio is largely attributed to the lack of loan demand in the bank's assessment area. A large number of retirees have migrated to the area in recent years. Management stated that these retirees bring deposits to the bank but that loan demand is very low from this segment of the community.

The bank's LTD ratio compares favorably with three institutions operating inside the bank's assessment area including two located in Livingston, Texas, and one in Shepherd, Texas, where the bank has a branch. The banks are considered similarly situated institutions based upon their respective asset sizes, loan portfolio mixes, and other factors. The seasonally adjusted loan-to-deposit ratios of the three similarly situated institutions are 26.96, 27.13, and 35.67 percent.

The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. Management is monitoring the bank's loan-to-deposit ratio on a quarterly basis and including this data in the public file as required by the Act.

LENDING IN ASSESSMENT AREA

The institution exceeds the standards for satisfactory performance relative to this factor since a substantial majority of the 1,960 loans sampled were originated inside the bank's assessment area. A review of the geographic distribution of the bank's loans disclosed the following information:

| DISTRIBUTION OF LOANS IN/OUT OF ASSESSMENT AREA | | | | |
|--|---------------|----------------|---------------|----------------|
| LOAN TYPE | IN | | OUT | |
| | NUMBER | PERCENT | NUMBER | PERCENT |
| CONSUMER LOANS (1,869) | 1,709 | 91% | 160 | 9% |
| SMALL BUSINESS (91) | 86 | 95% | 5 | 5% |
| TOTAL (1,960) | 1,795 | 92% | 165 | 8% |

Overall, 92% by number of the loans sampled were made inside the bank's assessment area. An analysis of the specific loan product categories revealed a similar conclusion. A total of 91% and 95% of consumer and small business loans, respectively, were made inside the assessment area. The bank's performance relative to this assessment factor is considered strong.

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

The distribution of the bank's loans by borrower income and business revenue reflects reasonable penetration among individuals of different income levels and businesses of different sizes and is satisfactory. The following tables detail the demographics of the area and the distribution of the loans sampled:

| PERCENT OF TOTAL HOUSEHOLDS BY INCOME CHARACTERISTICS (BASED ON 1990 CENSUS) | | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | LOW- INCOME | MOD- INCOME | MID- INCOME | UPP- INCOME |
| POLK COUNTY | 29% | 15% | 17% | 39% |
| SAN JACINTO COUNTY | 30% | 15% | 14% | 41% |

| CONSUMER LOAN SAMPLE BY BORROWER INCOME | | |
|--|----------------------------------|-------------------------------|
| INCOME CATEGORY | NUMBER OF LOANS BY INCOME | PERCENT OF TOTAL LOANS |
| LOW-INCOME | 403 | 23% |
| MOD-INCOME | 302 | 18% |
| MID-INCOME | 442 | 26% |
| UPP-INCOME | 562 | 33% |
| TOTAL | 1,709 | 100% |

As the above chart illustrates, the sample included 1,709 consumer loans originated during the second and third quarter of 1996. The analysis disclosed that the bank originated 23% of the loans sampled to low-, 18% to moderate-, 26% to middle-, and 33% to upper-income individuals. This distribution is in line with the demographics of the two counties which show approximately 30% low-, 15% moderate-, 15% middle-, and 40% upper income households in the assessment area. The distribution of the loans sampled demonstrates the institution's willingness to provide credit to individuals of different income levels in its community.

The examination also entailed a review of 86 commercial loans. The following table details this review:

| SMALL BUSINESS LOAN SAMPLE BY GROSS REVENUES | | | | |
|---|-------------------------------|----------------------------|---|-------------------------------|
| NUMBER OF LOANS | | GROSS REVENUES (GR) | DOLLAR AMOUNT | |
| NUMBER OF LOANS BY GROSS REV. | PERCENT OF TOTAL LOANS | | DOLLAR AMOUNT OF LOANS BY GROSS REV. (THOUSANDS) | PERCENT OF TOTAL LOANS |
| 2 | 11% | GR < 100M | \$ 9 | 7% |
| 11 | 61% | 100M <GR< 250M | 106 | 75% |
| 4 | 22% | 250M <GR< 1MM | 20 | 14% |
| 1 | 6% | GR > 1MM | 6 | 4% |
| 18 | 100% | Total | \$141 | 100% |

*Totals and percentages exclude 68 loans for which revenue information was not available.

The analysis indicates that 72% by number and 82% by dollar amount of the loans sampled were to businesses with revenues of less than \$250 thousand. However, this analysis is limited because revenue information was only available for 18 of the commercial loans sampled. An analysis of the sample by loan amount was performed to supplement this review and is detailed below:

| SMALL BUSINESS LOAN SAMPLE BY LOAN AMOUNT | | | | |
|--|-------------------------------|-------------------------|--|-------------------------------|
| NUMBER OF LOANS | | LOAN AMOUNT (LA) | DOLLAR AMOUNT | |
| NUMBER OF LOANS BY LOAN AMOUNT | PERCENT OF TOTAL LOANS | | DOLLAR AMOUNT OF LOANS BY LOAN AMOUNT (THOUSANDS) | PERCENT OF TOTAL LOANS |
| 36 | 42% | LA < 5M | \$ 91 | 11% |
| 26 | 30% | 5M <LA< 10M | 173 | 21% |
| 22 | 26% | 10M <LA< 50M | 434 | 53% |
| 2 | 2% | 50M <LA< 75M | 125 | 15% |
| 86 | 100% | Total | \$823 | 100% |

The analysis disclosed that 98% by number and 85% by amount of the commercial loans sampled were originated in amounts less than \$50 thousand. This activity is consistent with the demographics of the assessment area and the financial capacity of the institution and is considered reasonable. Both analyses demonstrate the institution's efforts and commitment to meet the credit needs of small businesses in its community.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans reflects a reasonable dispersion throughout the assessment area and is considered satisfactory. There are no designated low- and upper-income census tracts in the bank's assessment area. The following table details the distribution of the households in the bank's assessment area by designated census tracts:

| PERCENT OF HOUSEHOLDS RESIDING IN DESIGNATED CENSUS TRACT (BASED ON 1990 CENSUS) | | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | LOW- INCOME | MOD- INCOME | MID- INCOME | UPP- INCOME |
| POLK COUNTY | 0% | 13% | 53% | 0% |
| SAN JACINTO COUNTY | 0% | 0% | 34% | 0% |

The 1990 census information reveals that approximately 13% and 87% of the households in the bank's combined assessment area of Polk and San Jacinto Counties are located in moderate- and middle-income census tracts, respectively.

The review further disclosed that the number of originations in the San Jacinto County census tracts are significantly lower than in Polk County. Management stated that this is attributed to two factors. First, the San Jacinto National Forest comprises a large part of San Jacinto county. Second, accessibility to Livingston from this area is limited because the lake separates the two counties. Given the demographics of the two counties, the distribution of the bank's loans reflects a reasonable dispersion throughout the assessment area.

RESPONSE TO COMPLAINTS

The institution has not received any complaints regarding its CRA performance since the previous examination.

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

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