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COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION
PUBLIC DISCLOSURE

BOARD COPY

The Bank of Van Zandt

244055/11-48-1232

401 East Highway 243
Canton, Texas 75103

As of
December 1, 1997

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.

Federal Reserve Bank Of Dallas

P. O. Box 655906, Dallas, Texas 75265-5906

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 **The Bank of Van Zandt, Canton, Texas**, prepared by **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of December 1, 1997. 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 outstanding.

The volume of lending to low-or moderate-income borrowers primarily supports the outstanding rating of the bank. Approximately 44% of the motor vehicle loans and 52% of the unsecured loans sampled were to low-or moderate-income borrowers. Further strengthening the bank's CRA efforts are the innovative and flexible lending programs that are in place. In addition, the bank offers community development services and investments. These services include working with the local farmers to help develop solutions for problems related to the sweet potato harvests and partnering with the local community college to help entrepreneurs start new businesses. The bank has a proactive CRA program that includes an Action Plan, approved by the Board of Directors, and a self-evaluation process. The Bank of Van Zandt was rated outstanding at its last CRA evaluation dated December 4, 1995.

DESCRIPTION OF INSTITUTION

The Bank of Van Zandt (TBVZ) is an independent, locally owned financial institution. The main office is a full service facility located at 401 East Highway 243, Canton, Texas. The mini-bank office is a drive-in facility only and is located at 1591 North Trades Day Blvd., Canton. The bank owns and operates a drive-up ATM machine that is located at the mini-bank. It is one of two banks in Canton, Texas.

As of June 30, 1997, the bank reported total assets of \$55.5 million, gross loans of \$26.2 million and total deposits of \$48.7 million. The bank is currently in a growth mode. The June 30, 1997, asset and net loan growth rates are 14.7% and 27.17%, respectively. The primary lending focus is consumer. Consumer loans total \$8.8 million and represent 33.79% of the loan portfolio. Residential 1-4 family real estate loans make up an additional 28.61% of the portfolio.

DESCRIPTION OF VAN ZANDT COUNTY

TBVZ has defined its assessment area as Van Zandt County. Canton, located in northeast Texas approximately 60 miles east of Dallas on Interstate 20, is the County Seat. Management estimates that 88% of deposits and 82% of all loans are derived from Van Zandt County. Van Zandt County is typically described as rural in nature. However, during the last three to five years, the population make-up of the community has begun to change as Dallas residents relocate to Van Zandt County, purchasing acreage and building houses.

Major industries in the market area include agriculture with sweet potato and hay production being the main crops. Major employers in the area include Morton Salt Mining, Wal-Mart, and Van Zandt County. An essential factor in understanding the assessment area, is to recognize the economic influence of First Monday Trade Days. Billed as the largest flea market in the world, it brings to the city of Canton and Van Zandt County tourist as well as retail shopping dollars. The success and impact of this market is seen most readily on the city of Canton. The city collects enough sales tax and First Monday vendor revenue to avoid altogether the assessment of any kind of property tax on the citizens of Canton.

The 1990 United States Census (Census) placed the population of Van Zandt County at 37,944. There were 11,148 families living in the county, of which 20.4% were considered low-income, 17.1% moderate-income and 20.1% middle-income and 42.4% upper-income. Approximately 18% of the households live below the poverty level and 6% receive public assistance. The unemployment rate for the county is comparable to the state of Texas as a whole at 7.1%. The Department of Housing and Urban Development (HUD) updates the 1990 census information for the median family income on an annual basis. HUD reports the 1997 median family income for nonmetropolitan areas of Texas at \$31,500. For CRA purposes, borrower income information is analyzed using the adjusted figure.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The average net loan-to-total deposit (LTD) ratio of TBVZ is reasonable in light of its performance context. Included in the performance context are the bank's capacity to lend, the capacity of other similarly situated institutions to lend, demographic and economic factors present in the assessment area and the lending opportunities available in the assessment area.

As of June 30, 1997, the bank reported a LTD ratio of 52.32%. The ratio is trending upward from a low of 38.84% in December 1995. TBVZ's average LTD ratio since the last CRA evaluation, dated December 4, 1995, was 47.05%. To understand the bank's performance in relation to its assessment area, a LTD ratio analysis was made of two similarly situated banks. These banks are considered similar because items such as their locations, asset size, branching structure and loan portfolio mix. The June 30, 1997, LTD ratios for these banks were 45.62% and 58.08%. The average LTD ratio for these banks, since December 1995, were 43.17% and 57.95%.

LENDING IN ASSESSMENT AREA

Lending in the assessment area was analyzed using a sample of 64 loans secured by motor vehicles and 60 unsecured loans made between May and October 1997. Approximately 88% of the motor vehicle loans and 90% of the unsecured loans were located inside the assessment area. Included in the motor vehicle sample are loans made through two car dealerships under dealer paper agreements. As the dealerships have a broader marketing area than Van Zandt County, it is expected that the volume of motor vehicle loans made outside the assessment area would be higher than for other types of loans. The bank's record of lending inside the assessment area is excellent.

The loan analysis for the remainder of this evaluation uses only the loans located inside the assessment area.

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

A review of the bank's distribution of loans by borrower income was performed. The 1997 HUD adjusted median family income of \$31,500 is used for analysis purposes. The following table detailed the income strata using the adjusted median family income.

MSA MEDIAN FAMILY INCOME (\$31,500)		
INCOME CATEGORY	INCOME RANGE AS A PERCENT OF MEDIAN	UPPER LIMIT OF RANGE
LOW-INCOME	0-50%	\$15,750
MODERATE-INCOME	50-80%	\$25,200
MIDDLE-INCOME	80-120%	\$37,800
UPPER-INCOME	Over 120%	Over \$37,800

TBVZ's record of lending to borrowers of different income levels is commendable. Approximately 44% of the motor vehicle loans and 52% of the unsecured loans were made to low-or moderate-income borrowers. Contacts in various communities often say low-and moderate-income individuals have difficulty obtaining small dollar unsecured loans. Further demonstrating the bank's commitment to meeting the needs of the community, approximately one-third of the unsecured loans are for amounts of \$1,000 or less and approximately two-thirds are for amounts under \$2,500. The following table details lending by income level of the borrower.

Loan Sample by Income Level				
INCOME CATEGORY	Motor Vehicle Loans		Unsecured Loan	
	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS
LOW INCOME	9	16.66	12	23.08
MODERATE INCOME	15	27.78	15	28.85
MIDDLE INCOME	15	27.78	11	21.15
UPPER INCOME	15	27.78	14	26.92
TOTAL*	54	100.00	52	100.00

- Excludes two motor vehicle and two unsecured loans where the bank did not collect income information.

As part of its outreach efforts to low-and moderate-income individuals, TBVZ participates in the Federal Home Loan Bank of Dallas' (FHLBD) Helping Hand Grant Program. The purpose of the program is to facilitate the origination of new single family mortgages for families with incomes at or below 80% of the area median. When a participating bank borrows from FHLBD a portion of the interest paid on the loan is placed in a fund in the borrowing bank's name. The borrowing bank may use these funds for down payment assistance, closing cost or prepaid item assistance, principal reduction or principal guarantees on loans it originates. TBVZ has participated in the Helping Hand Grant Program since July 1997 and has funded one loan for \$25 thousand using grant money. Participation in this program is considered innovative and flexible.

GEOGRAPHIC DISTRIBUTION OF LOANS

Van Zandt County is a homogeneous middle-income area. As such no meaningful analysis could be performed. However, there are small pockets of low-income housing in the county. One such area is the Wynne Community, an unincorporated neighborhood that is encompassed by the city of Canton. The Wynne Community does not have municipal sewer and water services. The city of Canton is willing to provide sewer and water services at a cost of approximately \$60 thousand. The city plans to pass the cost of the hook-ups on to the Wynne Community residents. The assessment may be as high as \$5,000 per household. In an October 29, 1997, letter to the city of Canton, the bank reaffirmed its commitment to lend the Wynne Community residents the necessary funds to cover the city's assessment. When funded, these loans would be an example of the bank's willingness to use flexible underwriting standards to help with community development and be responsive to meet the credit needs of the entire community.

RESPONSE TO COMPLAINTS

There have been no written CRA related complaints since the last assessment.

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

A substantive violation of Regulation B, Equal Credit Opportunity Act was identified at the concurrent consumer compliance examination. It was a result of clerical error or oversight and not considered discriminatory in nature. Management has committed to strengthening the bank's fair lending policies, procedures, training programs and internal assessment efforts to prevent recurrence.

COMMUNITY DEVELOPMENT SERVICES AND INVESTMENTS

TBVZ has demonstrated a commitment to facilitate access to credit through its participation in community development services and investments. These services and investments include:

- Helping the local sweet potato farmers improve their crop – The sweet potato crop adds over \$8 million per year to the local economy. In the past, the farmers relied on seed potatoes from Louisiana. However, a weevil problem developed in some areas of Louisiana, which created a quarantine situation. TBVZ coordinated a meeting with Texas Agriculture Commissioner Rick Perry and the local farmers to discuss issues facing the sweet potato farmers. As a result of that meeting, Dr. Leonard Pike, a premiere vegetable breeder with Texas A&M University, began a program of cloning a sweet potato designed to grow specifically in the local soil and climate conditions. Contacts in the community stated TBVZ was helpful in bringing growers and businessmen together. The contacts further stated the bank is also trying to develop alternative marketing strategies and bring value added processing to the county. Management stated being able to produce top-quality sweet potatoes can translate into better sales and more profits for local growers. It is anticipated that by strengthening the agricultural base of the community, access to agricultural credit will be enhanced.
- President David L. King, Jr. serves on the board of directors of the Canton Economic Development Corporation (CEDC) and provides technical expertise in the area of banking and finances. The CEDC receives a one-half percent tax collected on all sales in Canton and estimate they will receive \$400 thousand in fiscal year 1997. One project that CEDC is currently working on is the purchase of a building that will be leased to a new business relocating to Canton. The company expects to provide 25 new jobs that could expand to 90 over the next two years. TBVZ has a binding commitment to finance the purchase of the building and is the CEDC depository bank.
- TBVZ sponsors several small business seminars offered through the Trinity Valley Community College Small Business Development Center. The seminars cover a range of topics from getting a business started to marketing. The bank provides financial support and instructors. In addition, President King speaks regularly to the business and economics classes at Canton High School. Topics discussed include money management and banking, economics, and investments.
- TBVZ offers low cost deposit products and does not charge non-bank customers for cashing government checks.