

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Texas First Bank
Name of Institution
Texas City
City
Texas
State
Eric M. Hagemester
Examiner-in-Charge

3232 Palmer Highway
Street
Galveston
County
77590
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 **Texas First Bank, Texas City, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of January 27, 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 **Satisfactory**.

The major factor contributing to the bank's satisfactory rating was the distribution of commercial and home improvement loans throughout the assessment area by operating revenue and income level, which was further strengthened by an apparent willingness of the bank to make small dollar loans. Analysis of the commercial loan sample determined that 33% of the loans with current income information were made to businesses with gross revenues of \$1 million or less and 92% of the loans missing current income information were made for amounts of \$20 thousand or less. Analysis of the home improvement loan sample found 29% were made to low- and moderate-income borrowers and 38% were made for amounts of \$5 thousand or less. Analysis of the motor vehicle loan sample found that 55% of the loans with borrower income information were made to low- and moderate-income individuals and 25% were made for amounts of \$5 thousand or less. The bank's reasonable distribution of lending evidences the bank's willingness and efforts to meet the credit needs of the community, particularly to small businesses and low- and moderate-income borrowers.

DESCRIPTION OF INSTITUTION

Texas First Bank, Texas City, Texas (TFB), is a wholly-owned subsidiary of Texas Independent Bancshares, Texas City, Texas (TIB). TFB is affiliated with the Texas First Banks located in Hitchcock, Galveston, and Santa Fe, Texas, which are also wholly-owned subsidiaries of TIB. The main office is located at 3232 Palmer Highway. Since the previous assessment, the bank opened a branch located at 1100 Highway 146, Kemah, Texas. Both locations offer full loan and deposit products and banking services, including conveniently-located automated teller machines and extended banking hours. At the last CRA examination conducted by the Office of the Comptroller of the Currency as of June 14, 1993, TFB received a satisfactory rating.

As of September 30, 1996, the bank reported total assets of \$63 million, up from \$56 million as of year-end 1995. Loans represented 55% of deposits. The bank's primary lending focus continues to be commercial and consumer-related. As shown below, each loan type represents approximately 27% of the bank's loan portfolio:

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 3,626	11.17
Residential 1-4	3,385	10.43
Multifamily	117	0.36
Commercial	6,963	21.44
Agricultural	73	0.22
Total Real Estate	14,164	43.62
Consumer:		
Open-end credit	423	1.30
All other	8,704	26.80
Commercial and Industrial	8,729	26.88
State and Political Obligations	431	1.33
Other	22	0.07
Total	\$ 32,473	100.00%

The bank's ability to meet various 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 and economic factors present in the assessment area, or the lending opportunities available in the institution's assessment area. Since December 31, 1993, gross loans have increased by \$9.9 million or 16.6% on an annualized-basis. Further analysis revealed that the \$9.9 million increase in gross loans was comprised of a \$4.6 million increase in real estate loans, a \$2.9 million increase in commercial loans, and a \$2.5 million increase in consumer loans.

DESCRIPTION OF GALVESTON COUNTY

The bank has defined its assessment area as Galveston County, Texas. Galveston County is located along the upper Texas Gulf Coast just to the southeast of Harris County and the Houston metropolitan area. The county faces the Gulf of Mexico to the southeast and is bordered by Brazoria County to the southwest, Harris County to the Northwest and Chambers County to the northeast. Galveston County covers 399 square miles. The City of Galveston,

Texas on Galveston Island serves as the county seat. The southward suburban development and growth of Houston, Texas towards the Northwest portion of Galveston County has further strengthened the economic ties between the two areas.

Galveston County had a 1990 United States Census population of 217,399, up 11% from the 1980 Census. The city of Galveston, Texas is the largest city with a 1990 population level of 59,070. Texas City, Texas follows as the next largest city with a population level of 40,822. Other incorporated communities in the assessment area include the cities of Dickinson, Friendswood, Hitchcock, Kemah, La Marque, League City, and Santa Fe, Texas.

The local economy is heavily linked to the petro-chemical and shipping industries. The port in Texas City is the third largest in Texas, by tonnage, and the 11th largest in the nation. The labor force totals 107,795 and the unemployment rate is 6.9%. Major employers include companies in the petro-chemical industry such as Amoco Petroleum Company and Union Carbide Corporation, medical facilities such as Colombia Mainland Medical Center, and state, county, and municipal governments.

Galveston County comprises the entire Galveston Metropolitan Statistical Area (MSA). The 1995 median family income for the MSA is \$42,500, which is 48% higher than the state's median family income of \$28,700. There are 13 low-income, 16 moderate-income, 25 middle-income, and 13 upper-income census tracts within the assessment area. (Refer to Income Category chart in Distribution of Credit Within the Assessment Area section for definitions of income categories.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO

TFB's quarterly average loan-to-deposit (LTD) ratio is reasonable in light of its performance context, which includes 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 quarterly average LTD ratio since the last consumer affairs examination is 55.3%. As of September 30, 1996, the bank's net loans represented 55.01% percent of total deposits. The national peer ratio for the same period was 68.30%. To better understand the bank's performance in relation to its assessment area, a LTD ratio analysis was made of unaffiliated banks chartered in Galveston County. Three unaffiliated banks were considered to be similarly-situated institutions based upon their respective asset sizes, loan portfolio mixes, and other factors. As of September 30, 1996, the three banks had quarterly average LTD ratios ranging from 32.7% to 54.1%, with their average being 45.4%.

LENDING IN ASSESSMENT AREA

The bank exceeded the standards for satisfactory performance, as a substantial majority of the 187 commercial, consumer, and home improvement loans sampled were made inside the assessment area. Of the loans sampled, 89% on a number-basis and 90% on a dollar-basis were found to be within the bank's assessment area. The following table details the bank's lending inside the assessment area by each product type:

Lending Inside the Assessment Area				
	Number of Loan Type	Percent of Loan Type	Dollar of Loan Type	Percent of Loan Type
Consumer	71	92	919	93
Commercial	53	82	819	83
Home Imp.	42	93	608	93
Total	166	89	2,346	90

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

The bank's distribution of loans in its assessment area by business revenue, borrower income, and dollar amount of loans met the standards for satisfactory performance. Examiner analysis included a review of 65 commercial loans, 77 consumer loans secured by motor vehicles, and 45 home improvement loans reported on the 1995 HMDA/LAR. The commercial and motor vehicle loan sample comprised six months of lending activity between June 1, and November 30, 1996.

As the following chart demonstrates, analysis of the bank's distribution of commercial loans by business revenue was limited by the fact that the bank did not collect business revenue information for 26 of the 53 business loans made inside the assessment area or 49%. As a general practice, the bank does not routinely collect income information on existing commercial accounts.

The bank occasionally makes commercial loans using the borrower's income rather than the business' gross revenue. Of the 15 loans in the sample where the borrower's income was used, one was made to a low- or moderate-income individual. Of the 12 commercial loans sampled with current business revenue information, 33% were made to businesses with revenues of \$1 million or less.

1996 COMMERCIAL LOAN SAMPLE		
GROSS REVENUES OF BUSINESS (THOUSANDS)	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS
\$0 - 100	1	8
\$100 - 250	0	0
\$250 - 1,000	3	25
OVER \$1,000	8	67
TOTAL *	12	100

In order to mitigate the lack of current business revenue information on a substantial portion of the commercial loan sample made inside the bank's assessment area, an analysis by loan amount was performed with the assumption being made that the amount of a loan serves as a proxy for income information when business revenue data is unavailable. Approximately 92% of the loans missing current income information were made for amounts of \$20,000 or less, clearly demonstrating the bank's willingness and efforts to meet the community's credit needs, in particular for small businesses.

The consumer loan analysis consisted of analyzing borrower income as a percentage of the Galveston MSA median family income. A breakdown by income range for each category is detailed below:

GALVESTON MSA MEDIAN FAMILY INCOME \$42,500		
INCOME	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0 - 50%	21,250
MODERATE-	50 - 80%	34,000
MIDDLE-INCOME	80 - 120%	51,000
UPPER-INCOME	120% and over	>51,000

An analysis of the loan distribution among the various income levels is detailed on the following chart and revealed a reasonable distribution of loans. Analysis of the motor vehicle and home improvement loan samples found that 55% and 29% of the loans were made to low- and

moderate-income borrowers, respectively.

On a combined-basis, approximately 39% of the motor vehicle and home improvement loans were made to low- and moderate-income borrowers, which compared favorably with the 1990 United States Census statistic that approximately 41% of Galveston County's population are considered to be low- and moderate-income individuals.

Loan Sample by Income Level				
	Consumer Loan		Home Improvement	
INCOME CATEGORY	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS	NUMBER OF LOANS BY INCOME OF	PERCENT OF TOTAL LOANS
LOW-INCOME	10	34	3	8
MOD-INCOME	6	21	9	21
MID-INCOME	6	21	9	21
UPP-INCOME	7	24	21	50
TOTAL *	29	100	42	100

However, the motor vehicle loan sample analysis was once again limited due to the fact that 42 of the 71 motor vehicle loans made inside the assessment area or 59% did not have current borrower income information. Further analysis by loan amount of the motor vehicle loan sample revealed that 25% of the loans were made for \$5 thousand or less. It is evident that the bank is making considerable efforts to make motor vehicle loans to low- and moderate-income individuals based upon the significant number of small dollar motor vehicle loans made.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the bank's geographic lending distribution was considered reasonable and met the standards for satisfactory performance. On a percentage-basis, the assessment area is comprised of 19% low-income, 24% moderate-income, 37% middle-income, and 19% upper-income census tracts. A review of the bank's distribution of loans in its assessment area among low-, moderate-, middle-, and upper-income geographies was performed on the sampled loans. The analysis of loan distribution among the various census tracts revealed a reasonable distribution of loans among the census tracts, with no apparent gaps in the dispersion of loans being noted. Of the total loans sampled, 19% were in low- or moderate-income geographies. Although the distribution of loans in low- and moderate-income census tracts appears somewhat low in relation to the percentage of low- and moderate-income census tracts comprising the assessment area, this may be explained by the fact that 51.2% of the low-income families and 67.4% of the moderate-income families living in Galveston County reside in middle-income and upper-income census tracts. The chart below details the loan distribution

in each income category by loan type.

Loan Sample by Census Tract						
	Commercial Loans		Home Improvement		Consumer Loans	
Income Category	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type
LOW-INCOME	2	3	4	9	2	4
MOD-INCOME	12	17	5	12	6	11
MID-INCOME	47	66	23	55	40	75
UPP-INCOME	10	14	10	24	5	10
TOTAL	71	100	42	100	53	100

RESPONSE TO COMPLAINTS

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

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

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