



**COMMUNITY REINVESTMENT ACT**

**PERFORMANCE EVALUATION**

**PUBLIC DISCLOSURE**

BOARD COPY

**First State Bank**

**RSSD # 603755 / DSB # 11-48-4225**

**601 College Street  
Junction, Texas 76849**

**As of  
November 3, 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**

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

First State Bank

Name of Institution

Junction

City

Texas

State

Sharon D. Ford

Examiner-in-Charge

601 College Street

Street

Kimble

County

76849

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, Junction, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of November 3, 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 primary factors supporting the bank's rating were a reasonable distribution of consumer loans by borrower income and a satisfactory distribution of commercial loans by business revenue throughout the assessment area. Analysis of the consumer loan sample found that 48% were made to low- and moderate-income individuals, in comparison to the 47% figure of low- and moderate-income individuals living in the assessment area. Analysis of the business loan sample revealed that 83% of the commercial loans with revenue data were made to firms with gross revenues of \$1 million or less. Further review indicated that 49% of the consumer loans were made for amounts of \$2,500 or less and 49% of the commercial loans were made for amounts of \$10,000 or less. These figures demonstrated management's willingness and efforts to make small dollar consumer loans benefiting low- and moderate-income individuals and small dollar commercial loans benefiting small businesses.

### DESCRIPTION OF INSTITUTION

First State Bank, Junction, Texas (FSB) is a stand-alone, rural community bank operating in Junction, Texas, whose main office is located at 601 College Street. The bank's only location offers a full line of loan and deposit products and banking services with convenient banking hours. In early 1998, the bank plans on strategically relocating into a new branch facility with an ATM and a drive-through in the western part of the city. Management indicated that this portion of the city is where the majority of the population and the retail and manufacturing growth are concentrated. At the last CRA examination conducted as of July 8, 1996, FSB received an overall outstanding rating.

As of June 30, 1997, the bank reported total assets of approximately \$21.2 million. Net loans and leases represented 40.7% of total deposits. As indicated in the following chart, FSB's primary lending emphasis continues to remain in consumer loans and residential real estate loans.

However, growth in the local real estate market has increased the bank's concentration in residential real estate loans from 22.8% to 28.8% of total loans, while the concentration in consumer loans has decreased from 51.4% to 23% of total loans. On a total dollar-basis, residential real estate loans have increased by \$449 thousand since the last examination while consumer loans have declined by \$2.2 million. Secondary concentrations were noted in commercial and agricultural loans, which comprised 5.7% and 14.2% of total loans, respectively. During this period, commercial and agricultural loans have increased by \$785 thousand and \$217 thousand, respectively. At the last examination, comparable figures for commercial and agricultural loan concentrations were 5.3% and 11.3%, respectively.

The asset distribution by loan type is as follows as of June 30, 1997:

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 39	0.51
Residential 1-4	2,186	28.82
Multifamily	0	0.00
Commercial	1,058	13.95
Agricultural	281	3.71
Total Real Estate	3,564	46.99
Consumer:		
Open-end credit	0	0.00
All other	1,744	23.00
Commercial and Industrial	1,187	15.65
Agricultural	1,080	14.24
State and Political Obligations	0	0.00
Other	9	0.12
Total	\$7,584	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 assessment area.

According to bank management, total loans have grown by \$118 thousand in the past twelve months through September 30, 1997. As noted above, the majority of loan growth has been centered in commercial, residential real estate, and agricultural loans. The commercial loan growth has occurred in the tourism, vacation, hunting, and convention segments of the economy, which has led to the construction and opening of several new hotels, restaurants, retail stores, and a new True Value Hardware store. The residential real estate loan growth has been fueled by

the construction of numerous vacation and retirement homes outside of town along the four rivers. While agricultural loan demand has been soft in the past year due to the elimination of federal mohair subsidies, agricultural loan demand has picked up recently as the ranchers have replaced mohair with goat stock for meat and dairy production. Also, the other major industries in the area appear to be strong and expanding, which include the local government and school system, cedar oil and wood processing plants, and metal fabrication companies. Overall, the local economy appears to have stabilized after suffering from an agricultural drought several years ago and now has an unemployment rate of 2.7% which falls below state and national averages.

## **DESCRIPTION OF KIMBLE COUNTY**

The bank has identified its assessment area as Kimble County. Junction, Texas, serves as the county seat, is the largest and only incorporated town in the county, and is located approximately 95 miles southeast of San Angelo, Texas and 117 miles northwest of San Antonio, Texas. The town's name and the reference to the county as the "Land of Living Waters" makes note of the local area just outside the city limits of Junction, Texas where four rivers converge. The area offers many recreational opportunities such as two parks, one camp ground facility, five public RV parks, numerous public and private hunting, fishing, and boating areas, a nine-hole public golf course, nine swimming pools, and ten tennis courts. The 1990 United States Census (Census) estimated the total population for Kimble County at 4,122, of which approximately 2,654 live in the city of Junction, Texas.

Analysis of the Census data found a slightly less affluent population for the county in comparison to the typical, nonmetropolitan community in the state of Texas. The 1990 Census combined median family income (MFI) for the assessment area was \$20,992, in comparison to the state nonmetropolitan MFI (SNM MFI) of \$24,586. Low- and moderate-income families represented a total of 46.8% of the total population in Kimble County, in comparison to 39.8% for low- and moderate-income families residing in nonmetropolitan areas throughout the state. Of the total 46.8% figure, low-income families represented 20.9% and moderate-income families represented 25.9%. Further analysis of the low-income segment of the population living in the county found that they were slightly better off than their state nonmetropolitan counterparts, as 14.0% were below the poverty level in the assessment area in comparison to 18.4% for the entire state. The Department of Housing and Urban Development (HUD) updates MFI on an annual-basis and reports the 1997 SNM MFI at \$31,500. For CRA purposes, borrower income information for a nonmetropolitan area such as Kimble County is based upon the latter figure.

As noted in other rural communities where the younger population has relocated to metropolitan areas due to a lack of employment opportunities, the remaining population is on the average older than the population living in metropolitan areas. According to the 1990 Census, the percentage of individuals aged 50 and above living in the assessment area represented 38.6% of the total population, with the median household age being 41.2 years. A recent influx of retirees into the community has further increased the percentage of the population aged 50 years and above.

Of the two block numbering areas (BNAs) comprising the bank's assessment area, both were middle-income BNAs. One of the two tracts was barely above the 80% MFI middle-income minimum threshold above \$25,200 based upon its 1997 BNA MFI to SNM MFI ratio of 80.3%.

This less affluent BNA comprises the lower half of the county, which includes the majority of the city of Junction, Texas. According to 1990 Census data, this less affluent BNA reported a total population of 3,011, which represented 73% of the entire county population.

Two community contacts held during the examination indicated that the local economy was stable and fairly strong due to the afore-mentioned growth in the real estate, retail, and manufacturing industries. In addition to the influx of retirees into the community the last several years, numerous second or vacation homes have been constructed outside the city limits along the four rivers. These two factors, along with an expansion of the manufacturing industry for cedar wood and oil products and improvement in the agricultural industry, have led to the improvement in the local economy.

However, both community contacts indicated that demand for affordable housing, particularly for low- and moderate-income individuals, is not presently being met. The major reason for the affordable housing shortfall appears to be a shortage of residential real estate builders in the community who are primarily focusing their efforts on building middle- and higher-priced homes for retirees and vacation homes for middle- and upper-income individuals. However, there also appears to be some resistance within the local community and city government towards economic growth in terms of addressing the affordable housing shortage and other problems and developing a long-range plan that involves and has the support of all members of the community. Other credit and community needs identified by the community contacts that are not presently being met included home repair and improvement loans for low- and moderate-income individuals, including the elderly, and extended banking hours for individuals who cannot make it to the bank during the day. It appears that there are numerous current and future opportunities for the bank to participate in community development and other credit-related programs in the area, particularly in the area of affordable housing.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **LOAN TO DEPOSIT RATIO**

The institution's loan-to-deposit (LTD) ratio is reasonable in light of its performance context, which includes the institution's capacity 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.

FSB's quarterly-average LTD ratio since the last examination equaled 42.6%. As of June 30, 1997, the bank's net loans represented 40.7%, which fell significantly below the national peer level of 63.8%. Since the last examination as of March 31, 1996, FSB's LTD ratio has declined from 43.6%, or by 2.9 percentage points, due to \$2.1 million in new public funds and a slight decrease in total loans of \$43 thousand. However, the bank's loan portfolio has increased by \$118 thousand in the past twelve months as of September 30, 1997. As noted earlier, this has occurred due to an improving agricultural industry, increased spending on recreational-related

activities, the construction of new vacation and retirement homes, expansion of the cedar wood and oil manufacturing business, and other direct and indirect economic growth.

FSB's quarterly-average LTD ratio was compared with banks operating within and adjacent to Kimble County in order to obtain a more meaningful comparison and more accurately assess the bank's performance. Three banks were considered to be similarly-situated institutions based upon their asset sizes, loan portfolio mixes, loan, deposit, and total asset growth patterns, and other factors. These three banks included one slightly larger national bank located in Junction, Texas and two other banks located in adjacent Mason County. The three banks' asset sizes ranged from \$16 to \$36 million, their concentrations in 1-4 family residential loans ranged from 5% to 17.1%, their concentrations in consumer loans ranged from 17% to 34%, and their quarterly-average LTD ratios ranged from 36.4% to 56.6%. FSB's quarterly-average LTD ratio of 42.6% closely-approximated and slightly-exceeded the 40.8% average of the three similarly-situated bank's quarterly-average LTD ratios, which was considered acceptable and met the standards for satisfactory performance.

<b>QUARTERLY-AVERAGE LOAN-TO-DEPOSIT RATIO                      FROM 9/30/96 THROUGH 6/30/97</b>		
PEER GROUP #22	FSB	SIMILARLY-SITUATED BANKS AVERAGE
61.5%	42.6%	40.8%

**LENDING IN ASSESSMENT AREA**

The institution exceeded the standards for satisfactory performance, as a substantial majority of the 94 consumer loans and 43 commercial loans extended during the eight-month period from January 1 through August 31, 1997, were made inside the bank's assessment area. Overall, 93% on a number-basis and 97 on a dollar-basis were made inside Kimble County. Analysis by each product type and summary totals on both a number- and dollar-basis are presented on the following two charts:

<b>LENDING IN ASSESSMENT AREA ANALYSIS BY NUMBER                      PERCENTAGE OF LOANS IN/OUT OF ASSESSMENT AREA</b>		
LOAN TYPE	% OF LOANS IN	% OF LOANS OUT
CONSUMER LOANS	91%	9%
COMMERCIAL LOANS	95%	5%
TOTAL LOANS	93%	7%

<b>LENDING IN ASSESSMENT AREA ANALYSIS BY DOLLAR PERCENTAGE OF LOANS IN/OUT OF ASSESSMENT AREA</b>		
<b>LOAN TYPE</b>	<b>% OF LOANS IN</b>	<b>% OF LOANS OUT</b>
<b>CONSUMER LOANS</b>	91%	9%
<b>COMMERCIAL LOANS</b>	99%	1%
<b>TOTAL LOANS</b>	97%	3%

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

On an overall-basis, the bank's distribution of consumer loans by borrower income information, commercial loans by revenue data, and by dollar amount for each loan product category were considered to be reasonable and met the standards for satisfactory performance. Examiner analysis included a review of 94 consumer loans and 43 commercial loans extended during the eight-month period from January 1 through August 31, 1997.

Review of the consumer loan sample consisted of analyzing borrower income as a percentage of the 1997 SNM MFI of \$31,500. A breakdown by income range for each income category is detailed below:

<b>1997 STATE NONMETROPOLITAN MEDIAN FAMILY INCOME</b>		
<b>\$31,500</b>		
<b>INCOME CATEGORY</b>	<b>INCOME RANGE AS A PERCENT OF MEDIAN</b>	<b>UPPER LIMIT OF RANGE</b>
<b>LOW-INCOME</b>	0-50%	\$15,750
<b>MODERATE-INCOME</b>	51-80%	\$25,200
<b>MIDDLE-INCOME</b>	81-120%	\$37,800
<b>UPPER-INCOME</b>	120% and over	over \$37,800

Analysis of the consumer loans among the various income categories found an overall reasonable distribution, as 48% of the loans were made to low- and moderate-income individuals. This level of lending closely approximated the 47% figure of low- and moderate-income individuals living within the assessment area based upon 1990 Census data.

CONSUMER LOAN SAMPLE IN 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
19	26	Low-income	\$33	10
16	22	Mod-income	60	18
21	28	Mid-income	109	32
18	24	Upp-income	133	40
74	100%	Totals	\$335	100%

Further analysis of the consumer loan sample by dollar amount found that the bank is making a significant amount of small dollar consumer loans. As shown on the following table, 49% of the consumer loans made inside the bank's assessment area were made for amounts of \$2,500 or less and 72% were made for amounts of \$5,000 or less. This further evidences management's willingness and efforts to assist in meeting the community's credit needs, in particular for small dollar loans that in many cases will benefit low- and moderate-income individuals.

CONSUMER LOAN SAMPLE IN ASSESSMENT AREA BY DOLLAR AMOUNT		
DOLLAR LEVEL CATEGORY	NUMBER	PERCENTAGE OF TOTAL
\$0 - \$1,000	11	13
\$1,001 - \$2,500	31	36
\$2,501-\$5,000	20	23
\$5,001- \$10,000	17	20
ABOVE \$10,000	7	8
TOTALS	86	100%

Analysis of the commercial loans among the various income categories appeared exceptional, as 83% of the commercial loans with revenue data were made to small businesses with gross revenues of \$1 million or less.

COMMERCIAL/BUSINESS LOAN SAMPLE BY INCOME LEVEL				
NUMBER OF LOANS		GROSS REVENUES (GR) (Thousands)	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
4	32	\$100 or less	\$46	11
2	17	\$101 to \$250	17	4
2	17	\$251 to \$500	38	8
0	0	\$501 to \$750	0	0
2	17	\$751 to \$1,000	213	48
2	17	Over \$1,000	130	29
12	100%	Totals	\$444	100%

However, nearly three quarters of the commercial loan sample was excluded from the analysis, as 71% or 29 out of the 41 commercial loans made inside the bank's assessment area were missing business revenue data. This is due to the fact that management typically does not rely on business revenue for small business loans and most small farm loans. It was noted during the review of the 41 commercial loan files that most businesses were sole proprietorships whose financial statements did not separate business revenue from personal income. Of the remaining 29 commercial loans missing business revenue data, the bank relied upon borrower income information in 17 instances. None of these borrowers were low-income individuals and one borrower was a moderate-income individual.

In order to mitigate the lack of business revenue data, an analysis was performed of the commercial loan sample using the loan amount as a proxy for business income information. An outstanding 49% of the commercial loans made inside the bank's assessment area were made for amounts of \$10,000 or less and 78% were made for amounts of \$25,000 or less. This analysis further substantiates management's willingness and efforts to help meet the community's credit needs, in particular for small dollar business loans.

COMMERCIAL LOAN SAMPLE IN ASSESSMENT AREA BY DOLLAR AMOUNT		
DOLLAR LEVEL CATEGORY	NUMBER	PERCENTAGE OF TOTAL
\$0 - \$5,000	11	27
\$5,001 - <del>\$10,000</del>	9	22
\$10,001-\$25,000	12	29
\$25,001- \$50,000	4	10
\$50,001 - \$100,000	4	10
ABOVE \$100,000	1	2
TOTALS	41	100%

### GEOGRAPHIC DISTRIBUTION OF LOANS

A meaningful analysis of the bank's geographical dispersion of lending throughout the assessment area could not be performed, as Kimble County consists of only two middle-income block numbering areas (BNA's). Additionally, management indicated that the bank does not internally geocode its loans and that there are no clear geographical delineations within the city limits of Junction, Texas, which has no zoning laws. No apparent gaps in the bank's geographical pattern of lending were noted. However, it appears the bank is meeting the needs of low- and moderate-income members of the community based upon the satisfactory level of lending to low- and moderate-income individuals.

### 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 violations involving illegal discrimination or discouragement were noted during the examination.

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