

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Texas Heritage Bank

Name of Institution

Hutto

City

Texas

State

Sharon D. Ford

Examiner-in-Charge

500 West Highway 79

Street

Williamson

County

78634

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 Heritage Bank, Hutto, Texas**, prepared by **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of January 6, 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 rating was the level of lending to low- and moderate- income borrowers and small businesses. Analysis revealed that 55 percent of the motor vehicle loans sampled were to low- and moderate-income borrowers and 68 percent of the business loans sampled were to businesses with annual revenues of less than \$1 million. Further analysis revealed a significant level of lending inside the bank's assessment area. Of the small business and motor vehicle loans sampled, 100 and 95 percent respectively, were originated inside the bank's assessment area.

DESCRIPTION OF INSTITUTION

Texas Heritage Bank (Bank) has three locations. The main office is located at 500 Highway 79 West, Hutto, Texas. The two branch locations are 101 Old Settler's Boulevard, Round Rock, Texas and 1721 Wells Branch Parkway, Austin, Texas. During the bank's previous assessment of June 19, 1995, the bank was assigned a satisfactory rating.

As of September 30, 1996, the bank reported total assets of \$50.8 million. Net loans and leases represented 60.09 percent of total deposits. As indicated in the following chart, the bank's primary lending focus continues to be real estate related, accounting for more than 52 percent of the total loan portfolio. The majority of the real estate lending consists of commercial purpose real estate loans. Combined with commercial and industrial loans, total commercial purpose loans consists of more than 42 percent of the bank's loan portfolio.

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 2,636	9.13
Residential 1-4	3,540	12.26
Multifamily	0	0.00
Commercial	6,616	22.92
Agricultural	2,499	8.66
Total Real Estate	15,291	52.97
Consumer:		
Open-end	0	0.00
All other	7,646	26.48
Commercial and Industrial	5,594	19.38
Agricultural	234	0.81
Other	105	0.36
Total	\$28,870	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.

DESCRIPTION OF TRAVIS AND WILLIAMSON COUNTIES

The bank considers its primary lending service area to be all census tracts located wholly or partly in Travis and Williamson counties. The bank's main office is located in the community of Hutto, Texas, which is in the southern portion of Williamson County and is a part of the northeastern expansion corridor of Austin, Texas. This area located along U.S. Interstate 35 has been experiencing a high rate of growth in recent years. The corridor has been a prime relocation area for many existing companies, especially computer hardware businesses such as Apple Computer, Dell Computer and Texas Instruments. Given the bank's asset size and the location of its offices, the majority of the bank's lending will be along the northeastern

expansion corridor. Community contact with an area housing authority revealed a need for lower cost homes and some multi-family dwellings. The contact indicated that while home building in the area has been brisk, the vast majority of the homes being built are higher cost homes of \$100,000 and more. According to the director of the housing authority not all of the residents moving into the corridor are making salaries that could support the higher cost homes. Contact was also made with a local chamber of commerce. According to the executive director, the largest demands for credit at this time are for small business loans and loans to area builders. With the growth rates of the communities along the Austin expansion corridor still peaking new service businesses to support the population growth are in high demand as are new homes.

The 1990 United States Census (Census) estimated that there are over 280,000 households in Travis and Williamson Counties. There are 91 low- and moderate- income, 66 middle, and 53 upper income census tracts in the two counties. According to the 1990 Census, approximately 37 percent of the households earn less than 80 percent of the median family income (MFI) and are designated low- and moderate-income. The Department of Housing and Urban Development updates MFI annually and reports the 1996 Austin-San Marcos MSA - MFI to be \$43,200. For CRA purposes, borrower income classifications are based on the revised number. Refer to the Income Category chart in Lending to Borrowers of Different Incomes and to Businesses of Different Sizes section of this report for specific definitions of income categories.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The bank's average loan- to- deposit ratio is considered 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 available in the institution's assessment area.

The bank's average loan-to-deposit ratio since the previous CRA assessment is 60.59 percent. As of September 30, 1996, the bank's net loans represented 60 percent of total deposits, which compares to the bank's national peer group of 67.64 percent. As of September 30, 1996, the bank compares favorably to the average loan-to-deposit ratio of 54.62 percent for its twenty competing commercial banks located in Travis and Williamson Counties.

LENDING IN ASSESSMENT AREA

A review of loans indicated that a vast majority were located inside the assessment area and the institution's performance is considered reasonable given the size of the bank's assessment area in relation to its total assets. Examiner analysis included a review of 71 motor vehicle and 47 small business loans. The small business and consumer loan review sampled six months of recent loan activity. Of the 118 loans reviewed, 93 had physical street addresses that could be utilized for determining the amount of lending activity performed by the bank inside its assessment area. Of the 93 loans reviewed, 90 (or 97 percent) were found to be within the bank's assessment area. When analyzed on a dollar amount basis, 99 percent of the

dollar amount extended went to businesses located or consumers living in Travis or Williamson County.

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 gross revenue and borrower income revealed a reasonable distribution of loans. Of the small business loans sampled, 68 percent of the number of loans extended and 58 percent of the dollar amount were to businesses with gross revenues of less than \$1 million. Additionally, 100 percent of the small business loans sampled were originated for amounts of less than \$100,000, emphasizing the bank's willingness to make small dollar business loans.

The consumer loan analysis consisted of analyzing borrower income as a percentage of the Austin-San Marcos MSA's - MFI. A breakdown by income range for each income category is detailed below.

1996 AUSTIN-SAN MARCOS MSA MEDIAN FAMILY INCOME \$43,200		
INCOME CATEGORY	INCOME RANGE AS A PERCENT OF MEDIAN	UPPER LIMIT OF RANGE
LOW-INCOME	Less than 50 %	21,599
MODERATE-INCOME	50 - 79 %	34,559
MIDDLE-INCOME	80 - 119%	51,839
UPPER-INCOME	120% and over	over 51,839

An analysis of the consumer loan distribution among the various income levels is detailed in the following chart and reveals a reasonable distribution of loans.

CONSUMER LOAN SAMPLE BY INCOME LEVEL *				
NUMBER OF LOANS		INCOME CATEGORY	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		DOLLAR AMOUNT OF LOANS BY INCOME OF APPLICANT (000s)	PERCENT OF TOTAL LOANS
11	29	Low Income	75	26
10	26	Moderate Income	47	16
8	21	Middle Income	81	28
9	24	Upper Income	83	30
38	100	Total	286	100

* Total excludes 33 loans that were either located outside the bank's assessment area or where borrower income was not available.

Of the consumer loans sampled, 55 percent were made to low- and moderate- income borrowers. The 1990 Census figures indicate that low- and moderate-income families comprise approximately 8 and 26 percent, respectively, of the assessment area's total population. On an overall basis, the level of lending to low- and moderate- income individuals is reasonable for the percentage of the population in the corresponding income categories.

GEOGRAPHIC DISTRIBUTION OF LOANS

The following chart represents the composition of census tracts within the bank's assessment area by income levels.

INCOME CATEGORY	NUMBER OF CENSUS TRACTS	PERCENT OF TOTAL CENSUS TRACTS
LOW-INCOME	42	20
MOD-INCOME	49	23
MID-INCOME	66	32
UPP-INCOME	53	25
TOTAL TRACTS	210	100

The following chart presents the conclusions of the bank's distribution of loans among low- and moderate-, middle, and upper income geographies which was performed on the sampled loans.

LOAN SAMPLE BY CENSUS TRACT*				
INCOME CATEGORY	MOTOR VEHICLE LOANS		SMALL BUSINESS LOANS	
	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	4	7	1	3
Mod- Income	6	11	4	12
Mid- Income	33	58	18	55
Upp- Income	14	24	10	30
TOTAL	57	100%	33	100%

* Chart excludes three loans located outside the assessment area and 25 loans that did not contain enough data to plot the loan.

The analysis of loan distribution among the various census tracts revealed a reasonable distribution of the small business and motor vehicle loans sampled. Of the total loans sampled, 18 percent were extended to borrowers located in low- and moderate-income areas, and a majority (58 percent) were extended to borrowers located in middle income geographies. While the distribution is disproportionate, it is considered reasonable given that the majority (55 percent) of the census tracts in the bank's assessment area are designated middle and upper income and there are no conspicuous gaps noted in the bank's lending distribution.

RESPONSE TO COMPLAINTS

The institution has not received any written complaints about its CRA performance since the previous assessment.

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

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