

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

The Security State Bank of Pecos

Name of Institution

Pecos

City

Texas

State

Eric M. Hagemeister

Examiner-in-Charge

115 West Third Street

Street

Reeves

County

79772

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 **the Security State Bank of Pecos, Pecos, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of March 9, 1998. 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 rating is primarily supported by the loan distribution of its consumer loan portfolio, which exhibits an excellent dispersion throughout the assessment area by borrower income. Approximately 60% of the loans contained in a six-month sample were made to low- or moderate-income borrowers with gross incomes of less than \$25 thousand. The sample of livestock loans was also well distributed among small farmers, with approximately 82% of the borrowers reporting gross revenues of less than \$250 thousand. This rating was further supported by the fact that 72% of the motor vehicle loan sample and 100% of the livestock loan sample were originated to borrowers residing or operating in moderate-income block numbering areas (BNAs) inside the assessment area of Reeves County. Given the rural nature and income demographics of the area, it was anticipated that lending within moderate-income BNAs would be high.

DESCRIPTION OF INSTITUTION

The Security State Bank of Pecos, Pecos, Texas (SSB), is a locally-owned entity with one office at 113 West Third Street, Pecos, Texas. The bank's previous CRA rating as of August 26, 1996, was Satisfactory. As of September 30, 1997, the bank had total assets of \$68.5 million and total deposits of \$57.6 million. As of that date, total loans represented 31.1% of total assets and 36.9% of total deposits. While the bank demonstrated nominal asset growth over the preceding 12-month period of 234 basis points, loans decreased by 90 basis points.

The bank's primary lending focus continues to be agricultural-related and comprised approximately 47% of the loan portfolio. SSB also does a significant amount of commercial and consumer lending, which accounted for approximately 25% and 19%, respectively, of the loan portfolio.

The bank's ability to meet various community credit needs has not been hampered by its capacity to lend. However, the lending opportunities available in the institution's assessment area have been adversely affected by the local economic conditions within Reeves County. Refer to the comments in the following section for further details concerning the local economy.

DESCRIPTION OF REEVES COUNTY

The bank has defined its assessment area to be Reeves County, of which Pecos serves as the county seat. With a population of 11,941, Pecos is the largest town in the county and has a population of 15,852. Pecos is located 76 miles west of Midland, Texas, and 82 miles east of Carlsbad, New Mexico.

The county's 1990 median family income (MFI) of \$20,490 is considerably less than the state's 1990 MFI of \$31,553. Reeves County's MFI is also 20 percent lower than the 1990 MFI for non-metropolitan areas within the state of Texas of \$24,586. Using the Texas non-metropolitan MFI as a basis, the county's population is comprised of 29%, 20%, 15%, and 37% low-, moderate-, middle-, and upper-income families, respectively.

The United States Census Bureau divides non-metropolitan counties into statistical subdivisions called block numbering areas (BNAs). Various information, including population, race, household composition, education, employment and income statistics, are available from the Census Bureau for each BNA. Reeves County consists of five BNAs. Four of the BNAs are classified as moderate-income and the remaining BNA is upper-income. Approximately 68% of the households in the county reside in moderate-income BNAs. In reference to the population distribution, 28%, 18%, 15%, and 39% of the households are low-, moderate-, middle-, and upper-income, respectively. These figures are consistent with the state's population distribution, with the exceptions that Reeves County's low-income population is 400 basis points higher than the state and the middle-income population is approximately 400 basis points lower. However, the number of households living below the poverty level in Reeves County (27%) is considerably higher than that of the state (17%).

Agriculturally, Pecos is best known for its cantaloupes. Other agricultural products include cotton, feed grain, cattle, hogs, vegetables, and mill production. Other major industries supporting the economy include manufacturing, government, and services. Tourism is increasing as a major industry, largely due to the area's world famous cantaloupes, the West of Pecos Museum, and Pecos' distinction of hosting the world's first rodeo in 1883.

Community contacts conducted during the examination described the economy in Reeves County as flat. The 1990 Census data reflected an unemployment rate of 11.7%, which was considerably higher than the state of Texas' average unemployment rate of 7.0%. The agricultural industry has been adversely impacted by drought conditions over the last several years. On the commercial side, one contact indicated that some employers in the area might be expanding soon. In general, contacts cited a lack of funding as the major impediment to improving the community. While both banks in the community are viewed as active and willing to make loans, contacts expressed continued credit needs for small-dollar consumer loans, home equity loans, commercial start-up loans, and agricultural credit.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank'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 bank's assessment area.

The bank's average LTD ratio since the previous examination equaled 29.8%. While the LTD ratio has decreased from the 31.6% figure at the previous examination, it was noted that the LTD ratio of the other bank located in Reeves County and those of the banks located in surrounding counties have also decreased over the same time period. This data suggests that loan demand has decreased as well.

As of September 30, 1997, the bank's net loans represented 36.2% of total deposits. The national peer ratio for the same period was 67.8%. The local peer bank with total assets of \$54 million had a LTD ratio of 54.6%. Management indicated that the competition's higher LTD ratio could be attributed to loan participations with affiliated banks. LTD ratios of banks in surrounding counties ranged from 34% to 65%, with the higher LTD ratios being reported by banks operating by themselves in their respective counties.

Management indicated that agricultural loan demand was down due to drought conditions and decreased profitability in cotton farming. Community contacts confirmed that the current economic conditions do not support a lot of bankable agricultural and business opportunities. With regards to consumer credit needs, contacts indicated that banks were proactive in making small-dollar consumer loans. Furthermore, examination loan samples demonstrated that SSB has responded to this identified credit need, as 32% and 65% of the motor vehicle loans were less than \$1,500 and \$5,000, respectively. While the volume of this type of lending is high, the dollar impact on the LTD ratio appears negligible.

Lending in Assessment Area

A review of the sampled loans indicated that a majority were located inside the assessment area and that the institution meets the standards for satisfactory performance. Examiner analysis included a review of 48 motor vehicle loans and 52 livestock loans originated in a six-month period in 1997. As summarized in the chart below, 80% of the loans were originated to borrowers living or operating inside the bank's assessment area.

| DISTRIBUTION OF LOANS INSIDE THE ASSESSMENT AREA | | |
|---|------------------------|----------------------|
| LOAN TYPE | NUMBER OF LOANS | DOLLAR VOLUME |

| | NUMBER | PERCENT | AMOUNT | PERCENT |
|----------------------|--------|---------|---------|---------|
| MOTOR VEHICLE | 43 | 90% | \$ 184 | 88% |
| LIVESTOCK | 37 | 71 | 1,126 | 47 |
| TOTAL | 80 | 80% | \$1,310 | 51% |

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The consumer motor vehicle loan analysis consisted of analyzing borrower income as a percentage of the state of Texas non-metropolitan median family income. A breakdown by income range for each category is detailed below:

| 1997 TEXAS NON-METROPOLITAN MEDIAN FAMILY INCOME OF \$31,500 | | |
|---|--|--------------------------------|
| INCOME CATEGORY | INCOME RANGE AS A PERCENT OF MEDIAN | RELEVANT LIMIT OF RANGE |
| LOW-INCOME | Less than 50% | \$15,749 |
| MODERATE-INCOME | 50 – 79 | 25,199 |
| MIDDLE-INCOME | 80 – 119 | 37,799 |
| UPPER-INCOME | 120% and over | over \$37,800 |

An analysis of the motor vehicle loan distribution among the various income levels is detailed on the following chart. Of the consumer loans sampled, 30% were made to low-income borrowers with an income of \$15,749 or less, and an additional 30% were extended to moderate-income individuals. The 1990 United States Census figures indicate that low- and moderate-income households comprised approximately 28% and 18%, respectively, of the assessment area's total population. On an overall basis, the level of lending to low- and moderate-income individuals is well above the percentage of the population in the corresponding income categories. The remaining loans extended to middle- and upper-income borrowers accounted for 40% of the dollar volume. The distribution of loans among all borrower income levels, when considered by both number and dollar volume, exhibits an excellent dispersion.

| CONSUMER LOAN SAMPLE BY INCOME LEVEL | | | | |
|---|-----------------------------------|---|-----------------------------|-----------------------------------|
| NUMBER OF LOANS | | INCOME CATEGORY OF APPLICANT | DOLLAR AMOUNT | |
| NUMBER OF LOANS BY | PERCENT OF TOTAL LOANS | | DOLLAR AMOUNT OF | PERCENT OF TOTAL LOANS |

| INCOME OF APPLICANT | | | LOANS BY INCOME OF APPLICANT (THOUSANDS) | |
|---------------------|------|------------|--|------|
| 13 | 30% | Low-income | \$ 50 | 27% |
| 13 | 30 | Mod-income | 61 | 33 |
| 10 | 23 | Mid-income | 35 | 19 |
| 7 | 17 | Upp-income | 38 | 21 |
| 43 | 100% | Total | \$184 | 100% |

In accordance with the regulation, the livestock loans were evaluated by the gross revenues of the borrower. For 22 of the loans, the bank relied upon the gross revenues of the cattle operation to make the credit decision and those loans were made primarily to borrowers earning less than \$250 thousand dollars per year. The remaining loans referenced in other sections of this assessment were made to borrowers owning livestock as a secondary source of income.

| LIVESTOCK 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 |
| 4 | 18% | GR < 100M | \$290 | 31% |
| 14 | 64 | 101M <GR< 250M | 523 | 57 |
| 0 | 0 | 251M <GR< 1MM | 0 | 0 |
| 4 | 18 | GR > 1MM | 110 | 12 |
| 22 | 100% | Total | \$923 | 100% |

As demonstrated in the chart above, 82% of the loans and 88% of the dollars lent within the livestock sample went to borrowers with gross revenues of less than \$250 thousand. Approximately 70% and 22% of the livestock loans were originated in amounts of less than \$25 and \$100 thousand dollars, respectively, further demonstrating the bank’s willingness to meet the identified credit need of small-dollar agricultural loans. Overall, the bank’s performance in this criterion exceeds expectations.

Geographic Distribution of Loans

Reeves County is comprised of four moderate-income and one upper-income block numbering areas (BNAs). The following chart presents the conclusions of a review of the bank's distribution of loans among moderate- and upper-income geographies which was performed on the sampled loans.

| LOAN SAMPLE BY BLOCK NUMBERING AREA. | | | | |
|--------------------------------------|---------------------------------------|------------------------------|---------------------------------------|------------------------------|
| BNA INCOME CATEGORY | MOTOR VEHICLE LOANS | | LIVESTOCK LOANS | |
| | LOANS IN BNA INCOME CATEGORY | PERCENT OF TOTAL LOANS | LOANS IN BNA INCOME CATEGORY | PERCENT OF TOTAL LOANS |
| LOW-INCOME | NA | NA | NA | NA |
| MOD-INCOME | 31 | 72% | 37 | 100% |
| MID-INCOME | NA | NA | NA | NA |
| UPP-INCOME | 12 | 28 | 0 | 0 |
| TOTAL | 43 | 100% | 37 | 100% |

While the number of loans originated in moderate-income BNAs is very high, it is considered reasonable given that 68% of the households in Reeves County reside in moderate-income areas. Additionally, the location of the livestock was used to geocode the agricultural loans. All of the rural area surrounding Pecos is considered moderate-income.

Response to Complaints

SSB 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.