

PUBLIC DISCLOSURE

June 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**State National Bank in West
Charter Number: 13022**

**100 N. Main
West, Texas 76691**

**Office of the Comptroller of the Currency
Southwestern District
Austin Field Office
8310 Capital of Texas Highway North, Suite 250
Austin, Texas 78731-1080**

NOTE: 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.

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 the 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 CRA performance of **State National Bank in West (SNB), Texas**, prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of June XX, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory.**”

SNB's lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.

- C The loan-to-deposit (LTD) ratio is satisfactory and averaged 27% since our last examination. This performance is in line with competing banks in SNB's assessment area, which averaged 20% for the same time period.
- C A substantial majority of SNB's loans are within its assessment area. Approximately 75%- 80% of all consumer, commercial, and agricultural loans made since the last CRA examination have been made within the bank's assessment area. SNB has made 80%-100% of its residential mortgage loans in its assessment area.
- C The bank's distribution of loans to individuals of varying incomes and to businesses and farms of different sizes reflects a very good penetration to low- and moderate-income individuals and to small farms and businesses.
- C There have been no complaints with respect to SNB's CRA performance.

The following pages further describe SNB's CRA performance and its community profile.

DESCRIPTION OF INSTITUTION

SNB has one office located in downtown West, Texas. The bank was chartered in 1923. On March 31, 1999, SNB had total assets of \$54 million with \$11 million in loans. Its primary business focus is consumer and agricultural lending. The following reflects a detailed breakdown of SNB's loan portfolio on March 31, 1999, as compared to the portfolio in our previous CRA examination as of June 30, 1996.

LOAN TYPE	3/31/99 Loan Volume	%	6/30/96 Loan Volume	%
REAL ESTATE:				
Construction	198	2%	23	0%
Farmland	229	1%	370	3%
Residential (1-4)	1,540	13%	1,651	13%
Multifamily	0	0%	390	3%
Commercial	1,096	10%	933	7%
CONSUMER	4,038	35%	3,313	26%
COMMERCIAL/INDUSTRIAL	2,360	20%	2,480	20%
AGRICULTURAL	2,034	18%	3,323	27%
OTHER	48	1%	60	1%
TOTAL	11,543	100%	12,543	100%

The bank is locally owned with three families owning the majority of the bank's shares. SNB is affiliated with CentraBank, Corp. of Waco, Texas, and Ennis Bancshares, Inc., through common ownership.

Complete banking services are provided Monday through Friday at the one office. The bank also offers a 24 hour telephone banking service. SNB's primary competitor is one other local bank. However, there is strong competition for residential lending and automobile financing from financial institutions and mortgage companies in the neighboring city of Waco, Texas.

Lending volume has declined slightly since our previous examination, due in part to the increased competition and the depressed local agricultural economy. Since our previous examination, drought conditions and lower commodity prices have negatively impacted agricultural lending opportunities. However, based on its financial condition and product offerings SNB has the ability to meet the various credit needs in its community. No legal impediments hinder the bank's ability to provide credit. At the last CRA examination in 1996, the bank's CRA rating was "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

Management has designated the northern portions of McLennan county and the southern portions of Hill county as the bank's assessment area. This assessment area includes four contiguous census tracts and four block numbering areas (BNAs) surrounding the community of West. The census tracts are in McLennan county and the Waco Metropolitan Statistical Area (MSA). The BNAs are in Hill County.

Based on information from the 1990 census, the population for the bank's entire assessment area is approximately 19 thousand as compared to the Waco MSA population of 189 thousand and Hill County population of 27 thousand. The population in West, Texas, was approximately 3,500 in the 1990 census. Updated 1999 income information from the Department of Housing and Urban Development (HUD) reflects that the median family income (MFI) in the Waco MSA is \$42,700 and \$34,300 in Hill County.

Three of the census tracts and three BNAs in the bank's assessment area are considered middle-income areas (80%-119% of the 1990 MFI). The remaining census tract and BNA are considered upper-income areas (>120% of the 1990 MFI).

The local economy is heavily dependent on the agricultural industry; however, the close proximity to Waco (20 miles) provides additional employment opportunities. West's major employers include the West Independent School District, West Rest Haven Nursing Home, West Community Hospital, a local feed mill, and an egg farm.

Additional demographic information on the community is presented below.

Assessment Area Demographics	
Population	19,327
Number of Families	5,543
Number of Housing Units	8,324
% Owner Occupied Units	70%
Median Housing Value	\$46,502
Population Age 65+ Years	16%
Households Receiving Social Security Income	35%
Households Receiving Retirement	16%
1990 Median Family Income - Waco MSA	26,770

Assessment Area Demographics Continued:	
1990 Median Family Income - Hill County	24,586
% Low-Income Families in Assessment Area	17%
% Moderate-Income Families in Assessment Area	16%
% Middle-Income Families in Assessment Area	21%
% Upper-Income Families in Assessment Area	45%

Demographics by BNA or Census Tract						
Tract No.	Income as % of MSA Median Family Income	Total Population	% Owner Occupied	% Age 65 and Over	% Low-Income Families	% Moderate-Income Families
34.01 - Waco MSA, Elm Mott, Ross	119%	1,174	73%	14%	20%	11%
34.02 - Waco MSA, Elm Mott, Ross	131%	3,017	74%	10%	15%	12%
42.01 - Waco MSA, West, Ross	94%	3,566	63%	24%	19%	23%
42.02 - Waco MSA, West, Gholson	109%	2,648	76%	10%	14%	22%
9605.- Hill County, Aquilla	109%	3,746	65%	16%	14%	16%
9607 - Hill County, Abbott	117%	1,791	65%	19%	23%	10%
9611 - Hill County, Bynum, Carl's Corner	129%	2,300	71%	16%	19%	16%
9612 - Hill County, Malone-Penelope	97%	1,085	63%	21%	26%	13%

Source: 1990 Census

Community Contacts

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted three community members and a representative from a local governmental agricultural agency. These contacts mentioned that SNB is active in the community and responsive to credit needs. Contacts were not aware of any unmet credit needs, but they were concerned about the future of the agricultural industry and the impact of the drought on local farmers and ranchers. They indicated that this year will be a make-or-break year for many farmers. Several have quit farming in the past few years and contacts are concerned that there are very few younger farmers going into the industry. Thus the prospects for loan portfolio growth from the agricultural industry appear limited. However, contacts and management indicated that the community is growing, due in part to its close proximity to Waco and the good reputation of its school system. The growth in the community has resulted in a tight housing market. Rental properties are scarce and moderately priced new homes are selling quickly. Several contacts suggested potential opportunities may exist for home improvement lending. SNB has been receptive to requests for home improvement loans as well as those for residential mortgages.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

SNB's LTD ratio is satisfactory given its asset size, financial condition, and lending opportunities in the assessment area. Since the last CRA examination in 1996, the average quarterly LTD ratio has declined slightly from 30% to 27%. Loan volume has declined slightly, but the decline in the LTD ratio is primarily attributed to a significant increase in deposits associated with a \$10 million school bond issue in 1998. The bank must pledge assets to secure these deposits and they are not available for lending. When these public funds are excluded, the bank's LTD ratio approximates the same level as our previous CRA examination. This performance is in line with SNB's primary competitors in the area whose LTD ratios have averaged 20% since over the same time period.

Banks used for comparison included: Citizens National Bank in Hillsboro, First State Bank of Mount Calm, First National Bank in Whitney, Nortex State Bank in Whitney, and West Bank & Trust in West, Texas.

SNB's LTD ratio has been negatively impacted by several external factors. As previously mentioned in our description of the institution on page 2 and in our description of the assessment area on page 5, the depressed agricultural industry provides limited opportunities for loan growth. Additionally, a fairly large percentage of the population in West is elderly and borrowing needs are typically lower for these individuals. 1990 Census data indicates that approximately 24% of the population in the community of West is over the age of 65, at least twice that of the state wide average. In addition, as reflected in the assessment area demographics on page 3, most individuals in the bank's assessment area own their own

homes; consequently, the demand for residential mortgages is lower. SNB also faces strong competition for *new* residential lending from mortgage companies and larger financial institutions in the nearby Waco and Dallas markets. However, despite these external factors, the bank's commercial loan portfolio has shown some growth (10%) in the past year. The consumer loan portfolio has also grown 22 % since the last CRA examination. In the loan files we sampled, we found that the bank makes numerous small loans to individuals and businesses for various needs. These smaller loans do not have a significant impact on the bank's LTD ratio. The average size of all new loans since our last CRA examination only approximated \$8 thousand. We found very few denied loans over the past two years.

Lending in the Assessment Area

A substantial majority of the bank's loans are within its assessment area. To assess the bank's performance in this criteria, we reviewed all residential and home improvement loans reported by the bank in its annual report required by the Home Mortgage Disclosure Act (HMDA). We reviewed all HMDA loans since our previous CRA examination. A summary of this analysis is presented below.

Loan Type	Number of Loans	% in Assessment Area by Number of Loans	% in Assessment Area by Dollar Amount of Loans
1997 HMDA	11	81%	83%
1998 HMDA	34	82%	76%
YTD 1999 HMDA	11	100%	100%

In 1997, the bank was tied for 5th place in the number of loans originated in its assessment area. It was tied with a bank from Waco and the other bank in West. Larger mortgage companies were the top 4 lenders.

We also selected a sample of 76 new consumer, 20 commercial, and 20 agricultural loans made in 1999 and reviewed a computer generated report of all new and renewed loans made since September 1996. The results from our sample and computer generated reports were similar. *Approximately 75%-80% of all consumer, commercial, and agricultural loans in both number and dollar are within the bank's assessment area.*

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects a very good distribution of personal and business loans among individuals of various income levels and a good dispersion to businesses and farms of different sizes.

In order to assess SNB's performance in this criteria, we reviewed all HMDA reports since 1997. We also sampled consumer, agricultural, and business loans made during the same time period when income information was available. Our analysis indicates that SNB lends to all applicants, regardless of their income category. The level of consumer and residential mortgage lending to low- and moderate-income families is very good in relation to the demographics of the community, competition, and available lending opportunities. The table below summarizes our analysis of lending activity in the assessment area by different incomes levels.

Loans to Borrowers of Different Income Levels										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Family		Total	
Area Demographics	17%		16%		21%		45%		100.00%	
	#	%	#	%	#	%	#	%	#	%
1997 -1999 Residential, Home Improvement per HMDA	13	28%	10	21%	14	30%	10	21%	47	100%
Consumer Loans	10	48%	4	19%	6	28%	1	5%	21	100%
Total	23	34%	14	21%	20	29%	11	16%	68	100%

SNB originates a satisfactory number of commercial and agricultural loans, a vast majority of which have been to "small businesses" and "small farms" with revenues less than \$250,000. Management continues to focus on providing loans that will enhance the local economy. The following chart reflects the results of our analysis of a sample of agricultural and commercial loans originated since 1997.

Loans to Small Businesses and Farms										
Revenue Ranges	< \$100M		\$101M -- \$250M		\$251M - \$500M		\$501M -- \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%	#	%
Agricultural	13	65%	4	20%	1	5%	1	5%	1	5%
Commercial	6	33%	6	33%	1	6%	4	22%	1	6%
Total	19	50%	10	27%	2	5%	5	13%	2	5%

Geographic Distribution of Loans

A meaningful analysis was difficult to perform as the bank's assessment area includes only middle- and upper-income census tracts and BNAs.

Response to Complaints

No complaints relating to CRA performance have been received by SNB.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of a compliance examination of SNB. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. No fair lending violations were identified.