



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 9, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank
Charter Number 4097
905 Main Street
Gatesville, Texas 76528**

**Office of the Comptroller of the Currency
Southwestern District
500 North Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

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 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 **National Bank (NB), Gatesville, Texas**, as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 9, 1996. 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**.

NB's lending performance demonstrates a responsiveness to the credit needs of the community, including low- and moderate-income individuals. The bank's loan to deposit ratio is very good. A majority of the bank's loans has originated within its assessment areas. The bank has a reasonable distribution of loans to low-, moderate-, and middle-income borrowers and a reasonable geographic distribution of loans.

The following table indicates the performance level of NB with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>NATIONAL BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior compliance examination.		

DESCRIPTION OF INSTITUTION

NB has four banking offices with drive-through facilities, a separate mortgage banking office located in Killeen, Texas, and three automated teller machines. The bank's head office is located in Gatesville, Texas. This is NB's original office and was established in 1889. The branches are located in Copperas Cove, Hewitt, and Killeen, Texas. On June 30, 1996, the bank had total assets of \$214 million with \$111 million in loans. Ownership of NB is widely disbursed among over 200 stockholders.

NB's primary lending activity has been centered in consumer and residential real estate loans. The following reflects a detailed breakdown of NB's loan portfolio:

LOAN TYPE	LOAN VOLUME	% OF TOTAL	AVERAGE LOAN SIZE
REAL ESTATE:			
Construction	5,699	5%	38.8
Farmland	3,868	3%	55.3
Residential (1-4)	43,481	38%	52.5
Multifamily	2,658	2%	126.6
Commercial	12,265	11%	125.0
CONSUMER	27,963	24%	5.4
COMMERCIAL/INDUSTRIAL	10,710	9%	16.5
AGRICULTURAL	7,789	7%	18.9
OTHER	1,550	1%	NA
TOTAL	115,983	100%	13.9

Currently, there are no financial or legal impediments that would limit the bank's ability to help meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREAS

Management has designated a separate assessment area for each banking office. Each assessment area is made up of all the contiguous census tracts which surround and include the city limits of each banking office. NB's assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. The consolidated assessment area includes a total of 29 census tracts of which one is designated low-income, four are moderate-, 18 are middle-, and six are

upper-income tracts. The assessment areas have a total population of 152 thousand.

The Gatesville, Copperas Cove, and Killeen banking offices, as well as the mortgage banking office, are located in the Temple-Killeen Metropolitan Statistical Area (MSA). Information from the 1990 census indicates that the entire population for the Temple-Killeen MSA is 255 thousand. The population of the bank's assessment areas in this MSA approximates 138 thousand. The 1996 Temple-Killeen MSA median family income is \$32,900.

Gatesville Assessment Area

NB's main office, which holds a majority of its loans and deposits, is located in Gatesville, which has a population of 12 thousand. Gatesville is the second largest city in Coryell County with a county population of 64 thousand. This assessment area includes four of the county's eleven census tracts. All of the census tracts in the bank's assessment area are considered middle-income areas per 1990 census data. The local agricultural economy is currently under significant stress due to a severe drought and a related decline in livestock prices. Major employers include the Texas Department of Criminal Justice, the Gatesville Independent School District (ISD), the Coryell Memorial Hospital, a large equipment and specialty trailer manufacturer, a medical plastics laboratory, and a clothing manufacturer and distributor. Primary competition includes a state bank, a Production Credit Association office, and a credit union. Management estimates that the city population numbers include approximately four thousand inmates from the five local prisons. Chamber of Commerce information reflects that the prisons provide 2.5 thousand jobs to the local area.

Copperas Cove Assessment Area

NB's second largest banking office is located in Copperas Cove with a population of 29 thousand. Copperas Cove is the largest city in Coryell County. The bank's assessment area for this office includes 5 census tracts, all of which are considered middle-income, as reported in the 1990 census information. The local economy is currently good. The economy is heavily dependent on support from the adjoining Fort Hood military base which continues to expand. Other major employers include the Copperas Cove ISD, the City of Copperas Cove, and a Walmart Super Store. The unemployment rate is currently 5.8%. Primary competition includes two larger banks and a number of credit unions.

Killeen Assessment Area

The population of Killeen is approximately 75 thousand. Killeen is located in Bell

county, which has a population 191 thousand. The bank's assessment area includes 18 of the county's 43 census tracts. According to 1990 census data, one of the tracts is considered a low-income area, four are considered moderate-income areas, nine are considered middle-income areas, and four are considered upper-income areas. The local economy is currently good and is heavily dependent on support from the adjoining Fort Hood military base which continues to expand. Other major employers include the Killeen ISD, the Central Texas College District, the Killeen Mall, the Metroplex Hospital, the Sallie Mae Loan Service Center, and the AT&T Calling Center. The local unemployment rate is currently 7.5%. Primary competition includes four banks and a number of credit unions.

Hewitt Assessment Area

Hewitt is located in McLennan county and is a bedroom community of Waco, Texas. Hewitt is included in the Waco MSA. The 1990 census data indicates that the total population for the Hewitt assessment area is 13 thousand versus a total Waco MSA population of 189 thousand. The 1996 Waco MSA median family income is \$35,800. The Hewitt assessment area includes only two of the 53 census tracts in the Waco MSA. Both of the census tracts in the bank's assessment area are considered upper-income areas. The local economy is currently good. Major employers in Waco include Baylor University, the public school systems, the health care industry, Chrysler Technologies, and local government. Major employers in Hewitt include the Midway ISD, a metal fabrication business, a large insurance claims office, a beverage company, and the City of Hewitt. Primary competition includes two banks and a number of credit unions. Competition also includes a number of Waco banks with locations on the southwest side of the city.

Discussions with bank management indicate that the most significant credit need in the assessment area is residential real estate financing. This includes the need for financing of small and/or rural residential properties where the loans will not qualify for sale to the secondary mortgage market. Discussions with one community contact indicated that the bank is doing a good job in meeting the credit needs of local farmers and ranchers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan to Deposit Ratio

The bank's lending performance is very good in relationship to the size of the bank and

the lending opportunities available within its assessment areas. NB's loan to deposit ratio has averaged 57% for the past nine quarters. This is slightly higher than the 54% reported for the same period by 29 area banks of similar size and characteristics. However, the bank's loan to deposit ratio is not truly reflective of its actual lending volume. The ratio does not include \$57.2 million in mortgages originated and sold by NB's mortgage company over the last 18 months. Statistics from an independent mortgage data service company indicate that NB is the second largest Federal Housing Authority (FHA) and Veteran's Administration (VA) mortgage lender in Coryell County as of May of 1996. Additionally, NB's deposits include a significant amount of public funds which totaled over 14 million as of June 30, 1996. These deposits have investment pledging requirements and thus are unavailable for lending. The following chart illustrates the bank's loans and deposits by branch as of June 30, 1996:

LOCATION	LOANS	DEPOSITS	RATIO
GATESVILLE (Main Office)	46,283	100,294	46.1%
COPPERAS COVE	20,875	49,795	41.9%
HEWITT	12,011	21,411	56.1%
KILLEEN	11,805	7,717	153.0%
MORTGAGE COMPANY	20,455	NA	NA
TOTAL:	111,429	179,217	62.2%

Lending in the Assessment Area

A majority of NB's lending activity is within the assessment areas. We sampled loans originated within the past 18 months from all of the offices. Our sample included all of the residential loans (1,179) and 25 consumer loans. We also reviewed the addresses of all the outstanding business loans. We found that approximately 73% of the bank's loans had originated within its assessment areas. The bank also had an additional 30% of its mortgage and business loans in adjacent Waco and Killeen-Temple MSAs.

Lending to Borrower's of Different Incomes and to Businesses of Different Sizes

Loan distribution reflects a reasonable penetration among individuals of different income levels and businesses of different sizes. Our loan sample for this performance criteria included the same real estate and consumer loans previously mentioned. The

commercial sample included 25 loans originated in the past eighteen months. The chart below details the sample used and reflects the distribution of the loan portfolio to borrowers of different income levels and businesses of different sizes. The chart reflects that the bank has extended loans to borrowers of different incomes consistent with the demographic make-up of its assessment areas. The bank has exceeded the benchmark for loans to low-income families.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS										
Percentage of Median Family Income	Low-Income Families <50%		Moderate-Income Families 50 - 79%		Middle-Income Families 80 - 120%		Upper-Income Families >120%		Totals	
Assessment Area Demographic Characteristics	16%		22%		24%		38%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
Mortgage 1995 & YTD 1996	142	16%	210	24%	170	20%	348	40%	870	100%
Consumer	6	24%	9	36%	6	50%	4	16%	25	100%
Total	148	20%	219	22%	176	27%	352	31%	895	100%
Revenue Ranges	< \$50M		\$50M - \$100M		\$101M - \$1MM		> \$1MM		Totals	
Commercial/AG	2	8%	2	8%	10	42%	10	42%	24	100%

In addition to reviewing borrowers' incomes in our sample of loans, we reviewed the portfolio to determine the average loan size by type. While loan size does not provide a definite indicator of customer size and income, there is a general correlation between the

two. Our analysis found that average loan sizes are small for consumer, commercial, and agricultural (AG) loans. Therefore, this gives additional support that credit is being extended to smaller borrowers. Please refer to the chart on page three for additional information on average loan size.

Geographic Distribution of Loans

The geographic distribution of the bank’s loan portfolio is reasonable. A meaningful analysis was difficult to perform as the bank has very few low- and moderate-income census tracts in its assessment areas. Our sample of the loan portfolio included the same loans mentioned in the previous performance criteria. The sample revealed that a majority of NB’s loans are made in the middle- and upper-income tracts. However, this is not unexpected as the majority of the bank’s loans have originated from banking offices which include only middle- and upper-income census tracts. The low- and moderate-income census tracts in the bank’s assessment areas are in Killeen. The low-income area is in downtown Killeen and the population in this area is very small (325). The opportunity for residential lending in the moderate-income tracts is not as plentiful as other areas because the majority of the housing units are rental properties and one of the moderate tracts includes the Fort Hood Military Base. The following chart depicts the geographic distribution of the loans sampled and originated within the assessment areas.

GEOGRAPHIC DISTRIBUTION OF LOANS					
	Low- Income Tracts	Moderate- Income Tracts	Middle- Income Tracts	Upper- Income Tracts	Total

GEOGRAPHIC DISTRIBUTION OF LOANS										
Area Demographic Characteristics	3%		14%		62%		21%		100%	
Number of Census Tracts	1		4		18		6		29	
Loan Types	#	%	#	%	#	%	#	%	#	%
Mortgage 1995 & YTD 1996	4	.5%	31	3.5%	562	64%	280	32%	877	100%
Consumer	0	0%	0	0%	21	100%	0	0%	21	100%
Commercial	0	0%	2	8%	20	84%	2	8%	24	100%
TOTAL	4	.4%	33	3.6%	603	65%	282	31%	922	100%

Response to Complaints

During this evaluation period, the bank has not received any consumer complaints regarding its CRA performance. Further, based on the fair lending portion of the examination, no violations of antidiscrimination laws and regulations were identified.