



## **PUBLIC DISCLOSURE**

November 14, 2016

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Kress National Bank  
Charter Number 15168

Highway 87 & 4th Street  
Kress, TX 79052

Office of the Comptroller of the Currency  
Lubbock Field Office  
5225 South Loop 289  
Suite 108  
Lubbock, TX 79424-1319

**NOTE:** This document is an evaluation of this 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. 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.

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

- Kress National Bank (KNB) has a reasonable quarterly average net loan-to-deposit ratio of 56 percent during the evaluation period.
- KNB originated a substantial majority of its loans by number (92 percent) and dollar volume (98 percent) to farms and individuals located with the assessment area (AA).
- KNB's loan portfolio reflects excellent penetration among farms of different sizes and individuals of various income levels within the AA.
- Geographic distribution of small farm and consumer loans is reasonable after considering the bank's performance context.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses KNB's record of meeting the credit needs of the community in which it operates. We evaluated KNB under the small bank performance criterion, which includes five performance criteria: the loan-to-deposit ratio, lending within the AA, lending to borrowers of different incomes and to farms of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate KNB's lending performance, a random sample of loans was selected based on the bank's primary loan products. Primary loan products are those that have been originated at the highest percentage by dollar and/or number of loans. Primary loan products during this evaluation period are farm loans and consumer loans. The loan sample consisted of 24 farm loans and 29 consumer loans originated between January 2014 and October 2016.

## **DESCRIPTION OF INSTITUTION**

KNB is a \$41 million community bank headquartered in Kress, Texas approximately 65 miles north of Lubbock. KNB is a wholly owned subsidiary of Kress Bancshares, Inc. a single bank holding company. KNB is an intrastate bank with one banking office located in Kress, Texas. The bank provides traditional banking services including a variety of traditional loan and deposit accounts. Bank lobby and drive-through services are provided Monday through Friday. KNB also offers basic online banking services at [www.knbkress.com](http://www.knbkress.com).

As of September 30, 2016, net loans and leases comprised 56.5 percent of total assets. The bank's primary loan products include agricultural loans (by dollar volume and number of loans) and consumer loans (by number of loans). The following table details the composition of the loan portfolio.

<b>Outstanding Loans by Original Amount as of September 30, 2016</b>				
<i>Loan Type</i>	<i># of Loans</i>	<i>% of #</i>	<i>\$ of Loans</i>	<i>% of \$</i>
Agricultural and Farmland	204	<b>50%</b>	20,733	<b>89%</b>
Consumer	182	<b>44%</b>	978	4%
Commercial and Commercial Real Estate	18	5%	1,265	6%
Residential Real Estate (1-4 Family)	5	1%	218	1%
Total	409	100%	23,194	100%

*Source: Bank Loan Trial Balance*

The bank's business strategy is to service agricultural, consumer, commercial, and real estate customers in Swisher and Hale Counties. The bank had a Satisfactory rating at its March 25, 2010 CRA evaluation. KNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

## **DESCRIPTION OF ASSESSMENT AREA**

KNB has designated Swisher and Hale Counties as its AA. The AA is comprised of whole geographies, meets regulatory requirements, and does not arbitrarily exclude any low- or moderate-income areas. There are 12 census tracts in the AA. Four are moderate-income, five are middle-income, and three are upper-income. The 2016 HUD-adjusted median family income is \$52,400. The AA has a population of 44,127. About 19 percent of households are below the poverty level. The unemployment rate for Swisher County is 4.7 percent, while the unemployment rate for Hale County is 5.9 percent, both of which approximate the state of Texas and the United States unemployment rates at 4.9 percent each.

Competition is strong for both deposits and loans. In addition to KNB, nine other financial institutions operate within the AA. The June 30, 2016 FDIC Market Share Report for the AA shows that KNB ranks seventh with 5 percent of all deposits. Two large state banks and one large national bank headquartered outside of the AA maintain approximately 64 percent of the AA deposits.

The AA economy is based on agricultural production, particularly cotton and livestock operations. Other major employers in the AA are Tulia, Kress, and Plainview Independent School Districts, Wayland Baptist University, and a Wal-Mart Distribution Center.

We contacted a local governmental office to obtain a community profile and identify opportunities for community development participation by local institutions. Economic conditions are stable. Our contact indicated there are minimal community development opportunities for local financial institutions. The financial institutions are helpful with time and donations to community projects, as well as making small consumer and farm loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

KNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, local competition, and AA credit needs. This determination is based on the bank’s quarterly average net LTD ratio for 27 quarters from March 31, 2010 through September 30, 2016 of 55.90 percent. The quarterly average net LTD ratio of similarly situated banks (total assets under \$100 million) for the same period was 54.92 percent.

Loan-to-Deposit Ratios		
<i>Institution Name</i>	<i>Total Assets (000s)</i>	<i>Quarterly Average Net Loan-to-Deposit Ratio</i>
<b>Kress National Bank</b>	<b>40,742</b>	<b>55.90</b>
The First National Bank of Quitaque	50,283	54.61
Citizens National Bank of Crosbyton	44,724	40.24
The First State Bank of Abernathy	25,604	73.82
The First National Bank of Floydada	99,636	51.00

*Source: Institution Reports of Condition from March 2010 to September 2016*

### Lending in Assessment Area

A substantial majority of KNB’s loans, 92 percent by number and 98 percent by dollar amount, were extended to borrowers who live or operate farms inside the AA. The breakdown by loan type is illustrated in the following table.

Lending in AA										
<i>Loan Type</i>	<i>Number of Loans</i>					<i>Dollars of Loans (000s)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
Farm	23	96	1	4	24	\$2,848	99	\$19	1	\$2,867
Consumer	26	90	3	10	29	\$185	87	\$27	13	\$212
Totals	49	<b>92</b>	4	8	53	\$3,033	<b>98</b>	\$46	2	\$3,079

*Source: Sample of loans used for CRA performance analysis.*

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

KNB’s loan portfolio reflects an excellent penetration among farms of different sizes and individuals of various income levels within the AA. To perform our analysis, we reviewed revenue information for 23 agricultural loans and 26 consumer loans originated in the AA during 2014, 2015, and year-to date 2016.

The percentage of KNB small farm loans by number is more than reasonable compared to the percentage of AA farms with gross annual revenues less than or equal to \$1 million. Ninety-six percent of sampled loans were made to farms with less than or equal to \$1 million in revenue. Demographic information shows that 95 percent of AA farms reported revenues less than or equal to \$1 million.

<b>Borrower Distribution of Farm Loans in AA</b>				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>&gt;\$1,000,000</i>	<i>Unknown</i>	<i>Total</i>
% of AA Farms	95.29	3.00	1.71	100%
% of Farm Loans in AA by #	<b>95.65</b>	4.35	0.00	100%
% of Farm Loans in AA by \$	65.82	34.18	0.00	100%

Source: Loan sample; 2016 Dunn and Bradstreet data

The percentage of KNB’s consumer loans significantly exceeds the ratio of low- and moderate-income households in the AA. KNB originated 62 percent of consumer loans by number to low-income households and 27 percent to moderate-income households, compared to the AA demographics of 26 percent and 16 percent, respectively.

<b>Borrower Distribution of Consumer Loans in AA</b>								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>
Consumer Loans	25.75	<b>61.54</b>	15.93	<b>26.92</b>	18.86	3.85	39.45	7.69

Source: Loan sample; 2010 U.S. Census data

### Geographic Distribution of Loans

KNB’s geographic distribution of loans reflects an overall reasonable dispersion given the bank’s performance context, business strategy, and location. To perform our analysis, we reviewed location information for 23 farm loans and 26 consumer loans originated in the AA during 2014, 2015, and year-to-date 2016.

KNB did not originate any farm loans in moderate-income tracts, which is below the demographic showing 15 percent of farms are located in moderate-income tracts. About half of all farms in the four moderate-income tracts are located in census tract 9508 in southeast Hale County, which includes the town of Petersburg. Kress and Petersburg are 40 miles apart. The other half are located in or just outside of Plainview. In between KNB and census tract 9508, there are seven large commercial banks and an Ag Texas Farm Credit Services location in Plainview. The bank’s performance is reasonable when considering this performance context.

Geographic Distribution of Farm Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farm	0.00	0.00	14.99	<b>0.00</b>	36.62	69.57	48.39	30.43

Source: Loan sample, 2016 Dunn and Bradstreet Data

The percentage of KNB consumer loans originated in moderate-income tracts (12 percent) is significantly below the ratio of households located in moderate-income tracts (35 percent) in the AA. As noted above, there are seven commercial banks, all substantially larger than KNB, located in Plainview. In addition, there are three federal credit unions and several finance companies in Plainview. Collectively, these financial institutions have a significant geographic advantage for lending in moderate-income tracts, three of which are in the city of Plainview. The bank’s performance is reasonable when considering this performance context.

Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumers	0.00	0.00	34.59	<b>11.54</b>	34.48	84.62	30.93	3.85

Source: Loan sample; 2010 U.S. Census data

### Responses to Complaints

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period. This has a neutral effect on the bank’s CRA performance.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA, or by an affiliate whose loans have been considered as part of the bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.