



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 05, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kress National Bank
Charter Number 15168**

**Highway 87 & 4th Street
Kress, TX 79052**

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

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's (KNB) CRA performance is satisfactory. We based our conclusion on KNB's lending practices. We evaluated these practices by reviewing a sample of the bank's primary loan products. The rating is based on the following findings:

- KNB's loan-to-deposit (LTD) ratio has averaged 35.8 percent since the last CRA examination. This is reasonable based on the economy, the demographics of the Assessment Area (AA), and the needs for credit in the AA.
- A substantial majority of the bank's loans, 92 percent by number and 98 percent by volume, are to customers who live or operate their business within the AA.
- KNB's loan portfolio reflects a reasonable distribution among individuals and families of various income levels (including low- and moderate-income) and businesses of different sizes within their AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- There were no complaints with respect to KNB's CRA performance.

DESCRIPTION OF INSTITUTION

KNB is a rural community bank in Kress, Texas, which is approximately 65 miles north of Lubbock. KNB is an intrastate bank with one main office, with drive-up facilities. KNB is wholly owned by Kress Bancshares, Inc. (KBI), a one-bank holding company located in Kress, Texas. KBI reported assets of \$29 million as of December 31, 2005.

As of September 30, 2005 KNB had total assets of \$27.9 million, with 44.4 percent in the loan portfolio. The bank's primary loan products include agricultural and consumer loans. The following chart details a breakdown of KNB's loan portfolio as of December 31, 2005.

Loan Portfolio Composition as of December 31, 2005		
Loan Category	\$ (000)	%
Agricultural	4,701	55.69
Agricultural Real Estate	303	3.59
Commercial Real Estate	326	3.87
Commercial & Industrial	2,102	24.92
Consumer	893	10.59
Other	115	1.34
Total	8,440	100.00

Source: December 31, 2005 Report of Condition

Bank lobby and drive-through services are provided Monday through Friday. Based on its financial condition, the local economy, product offerings, and competition, FNB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on July 10, 2000.

KNB’s business strategy is to provide outstanding banking services to customers in the panhandle of West Texas while increasing the long-term value of the owners’ investment. No legal impediments or other factors hinder KNB’s ability to provide credit in its AA. KNB’s Tier 1 Capital level is \$2.8 million representing 10.61 percent of adjusted average assets as of September 30, 2005. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF SWISHER/HALE COUNTIES

Kress National Bank has designated Swisher and Hale Counties as its assessment area (AA). These counties are located between the South Plains and Panhandle. Tulia is the largest city in Swisher County and is also the county seat. It is located approximately 80 miles north of Lubbock. Plainview is the largest city in Hale County and is located approximately 50 miles north of Lubbock. Specific demographic data and economic data for this area are listed below.

Demographic and Economic Characteristics of Swisher/Hale County AA	
Population	
Number of Families	11,394
Number of Households	14,896
Geographies	
Number of Census Tracts/BNA	12
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	17%
% Middle-Income Census Tracts/BNA	75%
% Upper-Income Census Tracts/BNA	8%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,295
2004 HUD-Adjusted MFI	42,000
Economic Indicators	
Unemployment Rate	2.81
2004 Median Housing Value	50,762
% of Households Below Poverty Level	17%

Source: 2000 Census data and HUD updated income data.

The bank’s AA is comprised of twelve contiguous census tract areas. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

Based on 2000 Census data, the AA as a total population of 44,980. There are 16,841 housing units in the AA, of which 58 percent are owner-occupied, 30 percent are renter-occupied, and 12 percent are vacant. Approximately 21 percent of the families in the AA are considered low-income. Moderate-income families approximate 16 percent of the population, while middle- and upper-income families comprise the remaining 63 percent. The local economy is based on agricultural-related activities. Two record crop years have strengthened the local economy; however, the area has experienced drought conditions recently. The largest employers in the area are Tulia, Kress and

Plainview Independent School Districts, Wayland Baptist University, Excel Beef Processing, and the Walmart Distribution Center.

Competition is high with 15 financial institutions and five credit unions in the local area. First Ag Texas and Farm Credit Services have offices in both Plainview and Tulia.

Two community contacts were conducted for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The contacts indicated that the local economy continues to struggle. The contacts stated that there is a need for affordable low- and moderate-income housing and down payment assistance. The community contacts also indicated the local financial institutions are cooperative and diligent in trying to meet the community's credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination is from January 2004 through December 2005, except for the loan-to-deposit ratio. The loan-to-deposit ratio was calculated from June 2000 through September 2005. KNB's performance is satisfactory, and management has been successful in meeting the credit needs of the bank's assessment area, including lending to farms of different sizes and individuals of different income (including low-and moderate-income) levels. We reviewed a sample of 26 agricultural and 25 consumer loans to evaluate the lending practices. These two loan products were identified as primary products based on the composition of the loan portfolio and the loans originated since the last CRA exam.

Loan-to Deposit Ratio

The loan-to-deposit ratio of Kress NB is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 35.8 percent since the prior CRA examination in July 2000. The average loan-to-deposit ratio of similarly situated banks within or contingent to the assessment area for the same period was 49.5 percent. Traditionally, Kress NB has had a diverse loan portfolio offering commercial, agricultural, and consumer loan products.

The bank does have a significant presence of large depositors who do not have borrowing needs. Individuals with large deposit balances who do not borrow from the bank directly affect the calculation of the loan-to-deposit ratio by increasing the denominator (deposits) without increasing the numerator (loans). As of September 30, 2005, the bank reported \$23 million total deposits. Of the individuals with deposit balances greater than \$100 thousand, approximately 75 percent did not have a lending relationship with KNB during the evaluation period.

Traditionally Kress NB has primarily been an small farm and consumer lender. Consumer lending represents a significant segment of the bank's loan portfolio. As of September 30, 2005, approximately 235 of the number of loans extended by the bank were consumer loans, of which 63 were for less than \$1,000.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 6/30/05)	Average Loan-to-Deposit Ratio
First State Bank, Abernathy	20,115	55.3%
Citizens Bank, Claude	81,169	60.3%
FNB Floydada	76,482	37.9%
Kress National Bank	26,116	35.8%
FNB Quitaque	38,067	44.5%

Source: Institution Reports of Condition from June 2000 to June 2005

Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess performance for these criteria, we reviewed 26 farm and 25 consumer loans originated between 2004 and December 2005. Our analysis determined that 92 percent of the number of loans and 98 percent of the dollar amount of loans in the sample were extended within the bank's AA. The breakdown by loan category is illustrated in the following table.

Lending in the Assessment Areas								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Farm	25	96.2	1374	99.3	1	3.8	10	.7
Consumer	22	88.0	83	76.0	3	12	20	24.0%
Total Reviewed	47	92.0%	1457	98.0%	4	8.0%	30	2.0%

Source: Sample of loans used for CRA performance analysis.

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

KNB's loan portfolio reflects a reasonable distribution among individuals and families of various income levels (including low- and moderate-income) and farms of different sizes within their AA. Our analysis reviewed income information of 26 farms, and 25 consumer loans in the AA.

Farm Loans - Based on 2004 Business Demographic Data, there are 3,261 businesses/farms with reported revenues located within the Swisher and Hale County AA. Of this number, 95 percent of businesses/farms reported revenues less than or equal to \$1 to million. Of the loans in the farm purpose sample, 100 percent were to farms reporting annual revenues below \$1 million. This level exceeds the assessment area information and reflects an outstanding penetration of farm loans to small farms. The following chart reflects the results of our selected sample of farm loans originated in this AA.

Borrower Distribution of Loans to Farms in Swisher/Hale County Assessment Area				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	90.5%	5.9%	3.6%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis reflects a reasonable penetration of consumer loans to low- and moderate-income households in the Swisher and Hale County AA. Based on 2000 Census

Information, 42.3 percent of households in the AA are low- and moderate income. Our review determined that 77.3 percent of consumer loans were made to low- and moderate-income households. The distribution of consumer loans exceeds the income characteristics of the AA for low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in this AA.

Borrower Distribution of Consumer Loans in the Swisher/Hale County Assessment Area								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.75%		17.05%		19.83%		41.37%	
LOANS	% of Number	% of Amount						
Total	50.0%	24.2%	27.3%	58.2%	22.7%	17.6%	0.0%	0.0%

Source: Loan sample; 2000 U.S. Census data.

Geographic Distribution of Loans

KNB’s geographic distribution of loans within the census tracts is reasonable given the bank’s business strategy and locations. Our analysis included 25 farm-, and 22 consumer-purpose loans in the AA. 2000 demographic information indicates that the low- and moderate-income areas are located in the central portion of the City of Plainview, which is approximately 13 miles from KNB.

Farm Loans - The performance in the low and moderate-income census tracts is comparable to the demographic composition of the AA. The following chart reflects the results of our selected sample of farm loans originated in KNB’s AA.

Geographic Distribution of Farm Loans in Swisher/Hale County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Farms	0.0%		14.0%		66.2%		19.8%	
LOANS	% of Number	% of Amount						
Total	0.0%	0.0%	12.0%	1.5%	80.0%	82.1%	8.0%	16.4%

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis indicated that the geographic distribution of KNB’s lending in the low- and moderate-income census tracts for consumer loans does not compare to the demographic composition of the AA. Our review determined that 4.6 percent of consumer loans were located in low- and moderate-income census tracts. The low penetration to the moderate-income tract is attributed to its location from KNB. At least five banks and one credit union located in the city of Plainview are more geographically accessible to those borrowers. The following chart reflects the results of our selected sample of consumer loans originated in the AA.

Geographic Distribution of Consumer Loans in Swisher/Hale County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.0%		20.4%		62.6%		17.0%	
LOANS	% of Number	% of Amount						
Total	0.0%	0.0%	4.6%	4.2%	86.3%	72.3%	9.1%	23.5%

Source: Loan sample; 2000 U.S. Census data.

Responses to Complaints

No complaints relating to CRA performance have been received by Kress NB.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.