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## PUBLIC DISCLOSURE

May 13, 1996

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Cleveland  
Charter Number 18104  
908 East Houston  
Cleveland, Texas 77327

Office of the Comptroller of the Currency

Southwestern District  
1600 Lincoln Plaza  
500 North Akard Street  
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 First National Bank of Cleveland (FNB) prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 13, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

## GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

**Metropolitan Statistical Area (MSA)** - Area consisting of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Census Tract (CT)** - Small, locally defined statistical areas within a MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

**Median Family Income** - The median income as determined by the United States Census Bureau. This amount is based on estimates developed by the Department of Housing and Urban Development and is updated annually.

**Low- and Moderate-Income (LMI)** - Income levels which are less than 80% of the median family income of the MSA.

**Middle-Income** - Income levels which are less than 120% of the median family income of the MSA.

**Community Reinvestment Act (CRA)** - This statute requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. The regulator must also evaluate whether the institutions's defined community is reasonable. (This is a general description of the bank's requirements and not a legal explanation of the requirements contained in 12 USC 2901 and 12 CFR 25 as amended, respectively.

**Home Mortgage Disclosure Act (HMDA)** - This statute requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of applicant(s), the amount of loan requested and its disposition (e.g. made, denied, or withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase and home improvement, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. (This is a general description of the bank's requirements and not a legal explanation of the requirements contained in 12 USC 2801 and 12 CFR 203 as amended, respectively.



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

FNB's performance rating is supported by the following:

- a satisfactory loan-to-deposit ratio of 53% over the last 24 months;
- a good record of lending to borrowers within the assessment area; and,
- a reasonable distribution of loans by income and geography.

The following table indicates the performance level of First National Bank of Cleveland with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Cleveland</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 previous examination.		

#### DESCRIPTION OF INSTITUTION

FNB is a locally-owned independent community bank having one location at 908 East

Houston, Cleveland, Liberty County, Texas. Liberty County is designated as a part of the city of Houston's MSA. The bank has total assets of \$13 million with a loan portfolio approximating \$6.3 million as of December 31, 1995. Lending activity is centered in individual consumers loans (47%), residential real estate related loans (37%), and commercial and industrial loans (7%). This lending activity compares with 54%, 35%, and 3%, respectively, at year-end 1994. Total deposits in the bank approximate \$11 million with capital accounts aggregating \$1.2 million.

The bank offers a variety of traditional deposit and loan products with residential mortgages and home improvement loans available up to 180 months. In addition, mobile home loans are available with repayment terms as high as 120 months. A significant portion of the bank's consumer loans was originally obtained through the purchase of indirect paper, primarily those relating to automobile and purchase money mortgage loans. In general, these loans are well-seasoned, granted outside of the bank's assessment area and were purchased several years ago.

There are no financial conditions, legal constraints, or other factors that hinder the bank's ability to help meet the credit needs of its assessment area.

#### DESCRIPTION OF FNB'S ASSESSMENT AREA

FNB's assessment area meets the technical requirements of the Act and does not arbitrarily exclude LMI census areas.

The defined assessment area is comprised of 12 census tracts within the counties of Liberty, Montgomery, and San Jacinto. Ten of these census tracts lie in Liberty and Montgomery counties and are within the Houston MSA. The city of Houston, Texas is the nation's fourth largest and is a major cultural center of the southwestern United States. Major employment opportunities are associated with medical and health care, aerospace, energy, and computer industries.

The Houston MSA has a population in excess of 3 million people, with 13% living below the established poverty level. The Department of Housing and Urban Development (HUD) MSA Median family income for Houston in 1995 is \$45,300.

According to the 1990 census data, the population of the bank's defined assessment area is 60,909. The city of Cleveland has approximately 7,124 residents. Within the assessment area, households designated as low income is 5%, moderate income is 30%, and middle income is 65%. Median family income of the area is \$26,115. The median housing value is

\$44,500 with the median year built being 1976. Owner occupied housing is high at 63%, rental occupied is 14%, and vacant housing is significant at 21% of total housing units available in the community.

The income level of these census tracts consists of one low-income, five moderate-income and six middle-income tracts. Two census tracts, which are located in San Jacinto County, are less populated and are a part of the Sam Houston National Forest. Both of these census tracts are designated as middle-income.

Timber and logging continue to be the major industries in the area. The local economy is considered stable but stagnant.

Management has identified individual, consumer, and residential mortgage loans as the primary credit needs of the community. Community contacts by representatives of our office with area businesses and the local housing authority indicate that small business and low income housing related loans are the types of credit needed in the assessment area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :**

**LOAN-TO-DEPOSIT RATIO**

FNB's loan-to-deposit ratio is reasonable in view of the community's credit needs and keen competition among area financial institutions. The bank's average loan-to-deposit ratio for the past two years is 53%. During this time period, this ratio has been relatively flat with the current loan-to-deposit ratio of 54%.

A majority of the bank's loans is within its defined assessment area. An internal analysis of a sample of 414 loans performed as of year-end 1995 reveals that a significant majority of loans is granted within the assessment area (AA) and is detailed as follows:

FNB RECORD OF LENDING					
CENSUS TRACTS	# OF LOANS	%	\$ OF LOANS ( '000)	%	Household %

FNB RECORD OF LENDING					
Low (1)	29	9	251	8	5
Moderate (5)	147	45	1,566	51	30
Middle (6)	150	46	1,280	41	65
Inside AA	326	100	3,097	100	100

FNB RECORD OF LENDING					
CENSUS TRACTS	# OF LOANS	%	\$ OF LOANS('000)	%	
Inside AA	326	79	3,097	71	
Outside AA	88	21	1,274	29	
Totals	414	100	4,371	100	

An analysis of 1994 and 1995 HMDA reportable residential related loan transactions reflects that 47% of the loans originated and 49% of the dollar volume of loans were extended inside the bank's assessment area. Loan applications are solicited from all segments of the community and income levels. The annual income level recorded for home mortgage borrowers in 1995 was as low as \$18 thousand.

The dispersion of loans throughout the assessment area is good. Loans are made to customers in census tracts of all income categories -- low, moderate, and middle. Approximately 51% of the bank's HMDA reportable loans are located in middle-income tracts, while approximately 65% of the community's households are located in such tracts. Thirty-five percent of these loans are in moderate-income tracts which accommodate 30% of the households. Low-income HMDA reportable loans comprise only 2% and represent 5% of the households. Consumer loans are not being tracked in the same manner as HMDA reportable loans, but internal records indicate a reasonable dispersion throughout the bank's defined assessment area.

Based on our review, most business loans are to local businesses having annual revenues less than \$1 million. Overall, the bank's lending volume regarding loans to small businesses is considered low.

The bank was found in substantive compliance with the provisions of anti-discrimination laws and regulations.