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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **PUBLIC DISCLOSURE**

September 7, 1999

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

**First National Bank of Newton  
Charter Number 12898**

**Main and Rusk Streets  
P. O. Box 37  
Newton, Texas 75966**

**Office of the Comptroller of the Currency  
Houston East Duty Station  
1301 McKinney Street, Suite 3750  
Houston, Texas 77010**

**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 the **First National Bank of Newton** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 7, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25. A copy of this document should be placed in the bank's public file.*

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

First National Bank of Newton has a *satisfactory* record of meeting credit needs within the community

- C The bank's loan-to-deposit ratio is reasonable considering the credit needs of the community.
- C A majority of loans originated by First National Bank of Newton are within the assessment area.
- C The bank's record of lending to borrowers of different income levels, including low- and moderate-income individuals and businesses of different sizes is reasonable.
- C The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

First National Bank of Newton is a \$ 91 million financial institution serving its customers with a main office in Newton, Texas and branch locations in Buna, Kirbyville, and Jasper, Texas. All branches offer the added convenience of Automated Teller Machines on their premises. No branches have been opened or closed during the last two years. The bank did open a Loan Production Office in Lumberton, Texas in February 1997 but it was closed in February 1998. The bank offers a variety of deposit accounts, other banking services and convenient hours of operations as well.

To help meet the credit needs of its community, the bank offers general and specialized loan products for consumers and small businesses. The bank is very active in providing credit to low- and moderate-income borrowers. The bank has 46 percent of its assets in loans. Lending activity is in the following categories: one-to-four family residential property 25 percent, loans to individuals 27 percent, real estate 25 percent, and commercial and industrial loans 21 percent.

The bank's last CRA examination was dated October 17, 1996 and the bank received a rating of "Satisfactory."

## **DESCRIPTION OF ASSESSMENT AREA**

First National Bank of Newton has defined its assessment area as all of Newton County and all of Jasper County. The assessment area consists of twelve census tracts. Of the twelve census tracts within the assessment area, two are defined as moderate-income (17 percent) and ten are middle-income (83 percent). The assessment area does not have any census tracts designated as low- or upper-income. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The assessment area has a population of about 44 thousand people, with 23 percent living below the established poverty level. The senior citizen population is moderate at 11 percent of the total population. The assessment area has approximately 20 thousand housing units with 73 percent being one-to-four family units. The number of owner occupied units is high accounting for 65 percent of the one-to-four family units. The percentage of vacant housing units is low at 19 percent of the total. The median housing value is \$35,947 and the median monthly gross rent is \$310.

According to the 1990 census, the weighted average Metropolitan Statistical Area

(MSA)/Non-MSA's Census Median Family Income was \$24,586. The updated Median Family Income of all Non-MSAs is \$33,900. Social security payments are received by 34 percent of the population in the assessment area.

First National Bank of Newton has a high degree of competition from several commercial banks, credit unions, and consumer finance companies located in Newton and Jasper counties and nearby areas.

Newton, Texas is located on Texas Highway 87 and U.S. Highway 90 and is the county seat. The city is twenty miles south of the Toledo Bend Reservoir on the Louisiana border, halfway between Houston, Texas and Shreveport, Louisiana and halfway between Dallas, Texas and New Orleans, Louisiana. Newton and Jasper are the commercial centers for lumbering, livestock, oil and farming. The major employers are: the school districts; plywood plants; a prison facility and several government offices. Overall, the economy is stable.

### **COMMUNITY'S CREDIT NEEDS**

First National Bank of Newton is an active lender to low- and moderate-income individuals. The bank has identified small dollar consumer loans and low dollar residential mortgage loans as the assessment area's primary credit needs. Community organizations, contacted during the examination, indicate that the banks in the area are active in the community in both lending and providing service. The community contacts also indicated the need for affordable housing funding.

No legal restrictions exist that could impede the bank's ability to meet the credit needs of the assessment area.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

## **LOAN TO DEPOSIT RATIO**

First National Bank of Newton actively attempts to meet the credit needs of its assessment area. The bank's loan-to-deposit ratio is reasonable based on the community's credit needs. This ratio is in line with similarly situated banks in Newton and Jasper counties.

The loan-to-deposit ratio as of June 30, 1999 was 51.10 percent. Since the prior CRA Performance Evaluation dated October 17, 1996, the bank's loan-to-deposit ratio has averaged 65.12 percent. Since the previous examination the bank's ratio has experienced a significant decline. Bank management noted that this decline in the loan-to-deposit ratio is a result of the bank being more selective in loan originations, an increase in the number of charged-off loans, and the transition and changes in lending personnel. First National Bank of Newton's ratios for the five most recent quarters are shown in Table 1.

**Table 1**

<b>QUARTER ENDED</b>	<b>LOAN-TO-DEPOSIT RATIOS</b>
June 30, 1999	51.10%
March 31, 1999	50.33%
December 31, 1998	54.88%
September 30, 1998	61.25%
June 30, 1998	65.64%
Five Quarter Average	56.64%

## **LENDING IN THE ASSESSMENT AREA**

A majority of loans originated by the First National Bank of Newton are within the assessment area. An examiner analysis was performed during the examination which

included a sample of consumer, residential real estate, and commercial loan files.

This analysis revealed that overall 87 percent of the number and 92 percent of the dollar volume of loans originated were within the assessment area. Detail relating to this analysis is shown in Table 2.

**Table 2**

<b>1999 LENDING IN THE ASSESSMENT AREA (AA)</b>		
<b>Loan Type</b>	<b>Percentage in AA (By #)</b>	<b>Percentage in AA (By \$)</b>
Consumer	95%	90%
Residential	80%	86%
Commercial	85%	94%
Commercial	87%	92%

**LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

Overall, First National Bank of Newton’s level of lending to individuals of different income levels and businesses of different sizes is reasonable. The bank is not a Home Mortgage Disclosure Act (HMDA) reporter. Since the bank’s primary credit is small consumer loans, a sample of twenty consumer loans were reviewed to evaluate the bank’s record of lending to borrowers of different income levels. The results of the sample review indicate that loan applications are solicited from all income levels with an above average pattern of lending to low- and moderate-income borrowers. In addition, a sample of nineteen commercial loans were reviewed. This sample review revealed a majority of commercial loans were to small businesses with less than \$ 1 million in annual gross revenues. Table 3 and 4 summarize our review of lending to borrowers of different income levels and businesses of different sizes.

**Table 3**

<b>CONSUMER LOAN DISTRIBUTION BY BORROWER INCOME</b>			
<b>Borrower Income Category</b>	<b>Distribution by Number</b>		<b>Percent of Families in AA</b>
	<b>#</b>	<b>%</b>	
Low	11	55%	24%
Moderate	4	20%	18%
Middle	4	20%	21%
Upper	1	5%	37%
Total	20	100%	100%

**Table 4**

<b>COMMERCIAL BORROWER REVENUE DISTRIBUTION</b>		
<b>Revenue Category</b>	<b>Distribution by Number</b>	
	<b>Number</b>	<b>Percent</b>
\$ 0 to \$100,000	4	21%
\$ 100,001 to \$250,000	2	10%
\$ 250,001 to \$500,000	3	16%
\$ 500,000 to \$1,000,000	4	21%
Over \$1,000,000	6	32%
Total	19	100%

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. An assessment of the geographic distribution of loans by census tracts was not performed. However, based on the sample of sixty (60) loans originated in 1999, it was ascertained through a zip code analysis that loans are dispersed throughout the assessment area.

First National Bank of Newton performed an internal geographic distribution analysis

during their annual CRA evaluation, December 31, 1998, which analysis was based upon zip codes. The loan accounts reviewed included: installment, commercial, and mortgage loans. This geographic analysis substantiated that the bank is extending credit throughout the assessment area.

## **RESPONSE TO COMPLAINTS**

First National Bank of Newton did not receive any consumer complaints since the prior CRA examination.

## **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

A Fair Lending review was performed in conjunction with the CRA examination. A sample of home improvement loans using the benchmark approach was reviewed. The test group sample included seven (7) black denied applicants which were compared to a control group of eighteen (18) white approved applicants. No evidence of disparate treatment was noted during the examination. There were no violations of the substantive provisions of the anti-discrimination laws and regulations cited during the examination.

## **OTHER CONSIDERATIONS**

First National Bank of Newton actively participates in lending projects designed to contribute to the general welfare of the community. The bank's loan officers have actively solicited and made community development loans which include loans to several area churches; funds for several rural water supply systems; and loans to community service organizations. First National Bank of Newton has funded time warrant loans for Newton County and provided funding for an area hospital which opened three new clinics in the various communities in the assessment area.

The bank is an active lender to low- and moderate-income individuals. The bank has consumer loans totaling \$285,257 as of June 30, 1999 that originated at \$1,000 or less. Also, the bank offers and originates low income/low cost mortgage loans to borrowers in the assessment area.