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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

November 20, 1997

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

**First National Bank of Bosque County  
Charter Number: 13675**

**418 Avenue C  
Valley Mills, Texas 76689**

**Office of the Comptroller of the Currency  
Southwestern District  
1600 Lincoln Plaza  
500 North Akard  
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 CRA performance of **First National Bank of Bosque County (FNB), Valley Mills, Texas**, as prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of November 20, 1997. 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**.

- FNB's lending performance has been excellent since the previous CRA examination in 1994. The bank's loan portfolio has grown approximately 35%. The bank's loan-to-deposit ratio has increased from 54% to 74% on September 30, 1997.
- Approximately 77% of the loans made in 1997 have been within the bank's community.
- The bank has a very good distribution of loans to borrowers and businesses of all income levels, including low- and moderate-income individuals. The bank's average loan size, year-to-date 1997, is only \$7,400. This small loan size is indicative of management's willingness to extend credit to lower income borrowers, small businesses, and farms.
- In addition to lending-related activities, management has also been involved in community development. In 1997, they assisted a local housing authority in obtaining funds for rehabilitation of a lower income housing project in Clifton, Texas.

The following pages further describe the bank's CRA performance.



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

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>First National Bank of Bosque County</u> PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does Not Meet Standards for Satisfactory Performance</b>
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	Geographic analysis was not meaningful.		
Response to Complaints	Not Applicable, no complaints relating to the bank's CRA performance have been received.		

## DESCRIPTION OF INSTITUTION

First National Bank of Bosque County (FNB) is a \$54 million rural bank, with headquarters in Valley Mills, Texas. The bank has two branch offices, both approximately 10 miles from the main office. One branch is located in Clifton, Texas, just north of Valley Mills in Bosque County. This office was established in June 1990, when FNB acquired the failed Clifton National Bank. The other branch, "The Ranch House," is located east of Valley Mills on Highway 6, between Valley Mills and Waco, Texas. The Ranch House Branch is in McLennan County and is new since the previous CRA examination, having opened in June 1995. FNB also recently purchased an automated teller machine (ATM), which is located in a convenience store, just across the highway from the Ranch House Branch.

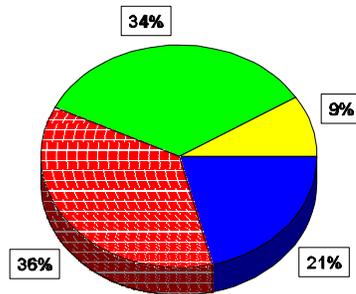
FNB is 100% owned by a one-bank, locally owned holding company, Valley Mills Financial Corporation.

At the last CRA examination in August 1994, the bank's CRA rating was "Satisfactory."

FNB offers traditional loan and deposit products and its primary business focus continues to be consumer and residential real estate loans. However, the bank does make small business and agricultural-related loans. FNB's loan distribution on September 30, 1997, is provided below.

## Loan Distribution

As of 9/30/97



The local economy is stable and is primarily supported by financial and health-related businesses, retail businesses, and light manufacturing. Ranching and the agricultural industry also provide some support to the local economy. One of the largest employers in the area is the Chemical Lime plant between Valley Mills and Clifton. Many of the local residents commute to nearby Waco, Texas for employment opportunities.

FNB is the only bank in Valley Mills. Management states that the bank's primary competition is from branch banks in Clifton, several Waco area banks and credit unions. Based on its financial condition, the local economy, product offerings, and prior performance, FNB has the ability to meet the various needs of its community. No legal impediments or other factors hinder the bank's ability to provide credit.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB has designated its assessment area as those contiguous census tracts and block numbering areas (BNAs)<sup>1</sup> surrounding its offices in McLennan and Bosque Counties.

### **BNAs in Bosque County**

- 9511.00 - includes the city of Valley Mills
- 9506.00 - area surrounding the city of Clifton
- 9507.00 - city of Clifton
- 9508.00 - area North of Highway 22, including Laguna Park

### **Census Tract in McLennan County**

- 40.00 - includes the city of Crawford
- 41.02 - includes the city of China Spring
- 29.00 - area between Waco, Valley Mills, North of Highway 84
- 41.01 - area North of Lake Waco
- 31.00 - area South of Lake Waco

Valley Mills is approximately 20 miles west of Waco. The 1990 census indicated the city population was 1,746. The city of Clifton is the largest city in Bosque county with a population of approximately 3,075. Census data indicates the total population for the bank's Bosque County assessment area is 8,206. Based on the 1990 census data, all the bank's BNAs are classified as middle-income areas, with the exception of 9511 (Valley Mills), which is classified as an upper-

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<sup>1</sup> Block numbering areas (BNAs) are small statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county boundaries.

income area<sup>2</sup>. Updated income information from the United States Department of Housing and Urban Development (HUD) reveals that the 1997 Texas non-metropolitan median family income (MFI) is \$31,500.

The census tracts surrounding the Ranch House Branch and those east of Valley Mills are in McLennan County, which is included in the Waco metropolitan statistical area (MSA). The population of the Waco MSA was approximately 189 thousand according to the 1990 census. The population for the census tracts in the bank's assessment area is only 10.6 thousand. The bank can more reasonably serve these areas as compared to the entire Waco MSA. Updated 1997 HUD income information indicates that the MFI for the Waco MSA is \$39,100.

Three of the bank's census tracts in McLennan County are considered upper-income areas and two are middle-income areas.

The following information on the bank's entire assessment area was obtained from the 1990 census data.

Assessment Area Demographics	
Population	18,840
Number of Families	5,553
1997 Weighted Average NonMSA/MSA MFI	\$35,722
Number of Housing Units	8,263
% Owner-Occupied Units	67%
Median Housing Value	\$58,437
Population Age 65+ Years	17%
Households Receiving Social Security Income	32%

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<sup>2</sup>BNAs and census tracts are classified by the following income-level designations:

*A low-income BNA* has an average median family income (MFI) *less than 50%* of the 1990 state average non-metropolitan MFI and a *low-income census tract* has an MFI that is *less than 50%* of the 1990 MSA MFI.

*A moderate-income BNA or census tract* has an average MFI between *50% and 80%* of the state average non-metropolitan MFI or MSA MFI.

*A middle-income BNA or census tract* has an average MFI between *80% and 120%* of the state average non-metropolitan MFI or MSA MFI.

*An upper-income BNA or census tract* has an average MFI *greater than 120%* of the state average non-metropolitan MFI or MSA MFI.

The 1990 Texas average non-metropolitan MFI was \$24,585 and the 1990 average MFI for the Waco MSA was \$28,953.

Assessment Area Demographics	
% Low-Income Families	12.82%
% Moderate-Income Families	14.50%
% Middle-Income Families	24.31%
% Upper-Income Families	48.41%

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted one member of the local city government. All comments on the bank's performance were positive, especially with regards to FNB's willingness to make loans. The community contact mentioned a potential lending opportunity regarding a shortage of low- and moderate income housing in Valley Mills, especially for the elderly community.

For further discussion on the bank's lending performance please refer to the following paragraphs which summarize performance in each criteria specified in the CRA regulation.

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

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is very good, given its asset size, financial condition, and the known credit needs of the assessment area. Since the last CRA examination, the bank's loan-to-deposit ratio has steadily increased from 54% to 74% on September 30, 1997. The average loan-to-deposit ratio over the 13 quarters since the last examination was 65%. The average loan-to-deposit ratio of the bank's primary competitors during this same time period was 62%.

### **Lending in the Assessment Area**

A significant portion of FNB's loans are within its assessment area. Verified bank reports reflect that 77% of the loans made in 1997 were within the bank's assessment area. Approximately 72% of the dollar amount of these loans were within the assessment area. An additional 14% of the bank's loans were in adjacent census tracts or BNAs in Bosque and McLennan counties. This distribution of loans indicates the bank is committed to its local community and takes an active role in meeting credit needs.

## Geographic Distribution of Loans

As previously mentioned in the description of the assessment area, all the census tracts and BNAs in FNB's assessment area are considered middle- or upper-income areas. Consequently, analysis of loan distribution by census tract or BNA would not provide a meaningful analysis. In addition, the geographic areas represented by the four BNAs in FNB's assessment area are too large to provide a useful analysis of its loan distribution. However, we were able to analyze loan distribution by branch office. FNB has a good distribution of loans among each office. A summary of loans and deposits in each branch as of September 30, 1997 is provided below.

Branch Office	Loans (000's)	Deposits (000's)	LTD Ratio
Valley Mills	25,961	30,816	84%
Clifton	5,147	11,893	43%
Ranch House	4,622	6,215	74%

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

FNB's loan portfolio reflects a very good distribution among individuals of various income levels<sup>3</sup>. The largest volume of the bank's loan portfolio is in consumer and residential real estate. As such, we selected a sample of consumer and residential real estate loans in FNB's assessment area to help determine the extent to which management is lending to borrowers of varying income levels.

The consumer sample consisted of 14 loans made in 1997 and the residential sample consisted of all loans in 1996 and year-to-date 1997 as reported in FNB's annual Home Mortgage Disclosure (HMDA) Statement. We compared the bank's performance to the demographic characteristics of the community and to residential lending by other banks in the area as reported in the 1996 aggregate HMDA data. As illustrated in the following table, FNB consistently lends to all applicants, regardless of their income category. The bank's performance was considered very good in relation to the nature of the community, competition, and available lending opportunities.

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<sup>3</sup> Income level designations are as follows:

A *low-income borrower* earns less than 50% of the updated 1997 MFI.

A *moderate-income borrower* earns between 50% and 80% of the updated 1997 MFI.

A *middle-income borrower* earns between 80% and 120% of the updated 1997 MFI.

An *upper-income borrower* earns more than 120% of the updated 1997 MFI.

<b>Lending to Borrowers of Different Income Levels</b>										
	<b>Low- Income Families</b>		<b>Moderate- Income Families</b>		<b>Middle- Income Families</b>		<b>Upper- Income Families</b>		<b>Total</b>	
<b>Area Demographic Characteristics</b>	<b>12.82%</b>		<b>14.50%</b>		<b>24.31%</b>		<b>48.41%</b>		<b>100%</b>	
	#	%	#	%	#	%	#	%	#	%
<b>Consumer Loan Distribution by Borrower Income</b>	4	29%	4	28%	4	29%	2	14%	14	100%
	#	%	#	%	#	%	#	%	#	%
<b>1996 Aggregate HMDA Data</b>	<b>14</b>	<b>2%</b>	<b>61</b>	<b>9%</b>	<b>126</b>	<b>19%</b>	<b>350</b>	<b>53%</b>	<b>551</b>	<b>100%</b>
<b>FNB's 1996 HMDA Loans</b>	3	15%	4	20%	7	35%	5	25%	19	100%
<b>FNB's 1997 HMDA Loans</b>	1	2%	10	18%	13	23%	32	57%	56	100%
<b>Total</b>	<b>8</b>	<b>9%</b>	<b>18</b>	<b>20%</b>	<b>24</b>	<b>27%</b>	<b>39</b>	<b>44%</b>	<b>89</b>	<b>100%</b>

We also selected a proxy to better assess the bank's willingness to extend credit to low- and moderate-income individuals, small businesses, and small farms. The proxy we used was loan size. While loan size does not provide a definite indicator of customer income, there is a general correlation between the two.

Internal bank reports indicated that the average size of all agricultural loans made year-to-date 1997 was only \$32,000. The average size of commercial loans for the same time period was only \$19,000. The average loan size for all loans made in 1997 only approximated \$7,400. This proxy further indicates the bank's willingness to extend small loans to lower income borrowers, small businesses, and farms. In reviewing loan files, we also found several examples where management granted flexible lending terms to help retain small businesses in the community and to revitalize the downtown area of Valley Mills.

### **Response to Complaints**

No complaints relating to CRA performance have been received by the bank.

## **Investment and Services**

In addition to FNB's good lending performance, the bank has identified additional ways to service the community. In 1997, FNB assisted a local housing authority in applying for a grant from the Federal Home Loan Bank. The grant application was approved for \$184,000 and will be used to rehabilitate lower income housing in Clifton, Texas.

FNB also offers lower cost deposit products for all customers and has special deposit services for senior citizens and students.

## **Compliance with Fair Lending Laws and Regulations**

A fair lending examination was conducted as part of the compliance and CRA examination of FNB. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.