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Comptroller of the Currency  
Administrator of National Banks

SMALL BANK EXAMINATION

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## PUBLIC DISCLOSURE

November 30, 1998

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Hico  
Charter Number 4366**

**135 North Pecan  
Hico, Texas 76457**

**Comptroller of the Currency  
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 **The First National Bank of Hico** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 30, 1998. 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**.

The lending performance of the First National Bank of Hico reflects satisfactory responsiveness to the community's credit needs. This is demonstrated by the types of loan products offered, with 64% of total loans in home mortgage, small business, and consumer loans. Competition for loans within the assessment area is strong. Despite heavy competition, the bank's loan-to-deposit ratio reflects satisfactory performance. In addition, a substantial majority of the loans extended are within the bank's identified assessment area. The lending pattern reflects a reasonable penetration among borrowers of all income levels and in all segments of the community.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<b>First National Bank of Hico 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	Not rated because the banks loans are widely dispersed and there are no low-or moderate-income census tracts.		
Response to Complaints	No complaints were received since the prior examination		

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Hico (FNB) is locally owned by First National Bancshares of Hico, Inc. (FNBHI), a one-bank holding company with total assets of \$23 million as of September 30, 1998. Hico is a rural community located approximately eighty miles southwest of Fort Worth and twenty miles southeast of Stephenville, in Hamilton County, Texas. There are no well defined major industries in the community. The local economy is fairly stable and is centered primarily in dairy, small farming, cattle, and local small business operations. FNB offers basic banking services, and has one local offsite ATM. The bank's focus is on residential and farmland mortgage lending, and consumer lending: 59% of the loan portfolio is in 1-4 family mortgage and farmland loans, and 25% is to individuals for household, family, and personal expenditures. Other types of loans made include: small business - 8% of total loans, agricultural production - 4%, and government guaranteed and student loans - 4%. The bank's financial condition does not inhibit its ability to meet credit needs in its assessment areas. At the prior CRA examination, dated February 12, 1996, performance was rated satisfactory.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area includes a portion of Hamilton, Erath, and Bosque counties and consists of eight contiguous whole census tracts. Of the eight census tracts, one census tract is located in Hamilton County, six in Erath County, and one in Bosque County. Six are middle income census tracts, and two are upper income. There are no identified low or moderate income census tracts. The bank is located in the northeast corner of Hamilton County which borders both Erath and Bosque Counties. This designation meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The economic make-up of the area indicates that the primary credit needs continue to be small business enterprise loans, residential mortgage and farmland loans, consumer loans, and agricultural related loans. The focus and structure of the bank's loan portfolio indicate that these needs are generally being met.

The bank's immediate market area is rural, comprised of ranching, farming, dairying, and related small businesses. Additionally, the environment is considered agriculturally oriented. The assessment area population is just over 29,000 with 10% being minority. The population of Hico is estimated at 1,500. The statewide weighted average Non-MSA updated median family income, based on HUD adjusted 1990 census information, is \$32,100 as compared to the bank's assessment area median family income of

\$28,811. According to the same data, 18% of all families are low income, 17% are moderate income, 19% are middle income, and 46% are upper income.

The economy in the assessment area is fairly stable. However, the dairy and cattle industries continue to experience problems with volatile milk prices, high feed cost, mid-year drought, and a depressed cattle market. Currently, these factors are improving, and the economic outlook for these industries is brighter. The volatile conditions of the dairy industry is forcing several small dairy farmers to sell or liquidate.

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

FNB's lending performance is satisfactory. The bank makes residential and farmland mortgages, small business, and consumer loans throughout the assessment area to individuals of different income levels. Our review of fair lending regulations revealed no evidence of discriminatory practices, and no violations of the substantive provisions of antidiscrimination laws.

### **Assessment Area Concentration**

A substantial majority of the bank's lending is within the assessment area. The bank's December 1, 1998 annual CRA review reported 84% of its loans are within the assessment area. Our sample of consumer and small business loans, a total of 58 loans, supports the bank's review with an average of 86% of the number and 84% of the dollar volume were booked within the assessment area.

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

Eleven other financial institutions compete for loans within the bank's assessment area. The city of Hico is serviced by two banks. Competition for loans is strong. Despite heavy competition, FNB's loan-to-deposit ratio of 40% over the past ten quarters reflects reasonable performance given its asset size, known credit needs of its assessment area, local economic conditions, and average age of the population.

FNB follows a conservative lending philosophy. However, we did not observe that this philosophy is excluding any low- or moderate-income individuals. Current demographic data indicates that 35% of the area families have low- and moderate-incomes. A broad range of credit products and services are offered. Management

indicated that a substantial portion of Hico's population is over 60 years of age and does not have many borrowing needs.

The bank continues to be a leader in offering small business loans to revitalize the downtown Hico area. Low interest loans are offered to customers interested in establishing and restoring businesses in the downtown area. Through these continued efforts, the bank hopes the city will be able to attract new businesses and tourism, both of which will increase the area economy and loan demand.

### **Geographic Distribution of Loans**

The loan distribution to borrowers reflects a satisfactory penetration among individuals of different income levels. The bank does not perform a geographical analysis of the loan portfolio within the assessment area. Also, there is no internal analysis to determine the level of loan penetration to borrowers of different income levels. Although the bank does not obtain income information on all of its loan customers, evidence is available to suggest that there is a reasonable penetration of loans among individuals of different income levels. The results of our random sampling of 37 consumer loans, 17 with income information, reflected 47% of the loans were extended to borrowers with low- and moderate-income levels. The sample of 21 business loans indicated that 95% of these loans were extended to small business borrowers with gross revenues less than \$1 million.

FNB's typical loan customer is a small business or small ranch owner, and customers needing small consumer credit. The bank is willing to make loans in original amounts as low as \$100, typically to low- and moderate-income individuals. No other bank in the area offers this product. As of September 30, 1998, the bank had 118 loans on its books under \$2,000, or 17% of the total number of loans. The bank remains committed to making affordable loan products to all applicants and at all income levels.

A geographic distribution analysis was not performed during this examination. The bank's loans are widely dispersed and there are no low- or moderate-income census tracts. Therefore, plotting loans in a geographical analysis would not be representative of income levels of people in specific geographies. Although a specific analysis was not performed, it did not appear that any area of the community had been arbitrarily excluded.

## **Response to Substantiated Complaints**

During the evaluation period, First National Bank has received no complaints concerning its performance in meeting assessment area credit needs.