



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Washington, D.C. 20219

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**First National Bank of Huntsville
Charter Number 4208**

**1300 Eleventh Street
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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 Comptroller of the Currency 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 Huntsville** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **July 19, 1999**. The agency rates the CRA performance of an institution consistent with the provisions of appendix A to 12 C.F.R. part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

This rating is based primarily upon the bank's strong record of lending within its Assessment Area and its record of lending to individuals of different incomes and businesses of different sizes.

Description of the Institution

First National Bank of Huntsville has total assets of \$188 million and total deposits of \$172 million. Net loans and leases represent 31.46 percent of total assets as of June 30, 1999. Real Estate loans represent 54.13 percent of gross loans, Commercial and Industrial loans represent 14.14 percent, Loans to Individuals represent 28.85 percent, and Agricultural loans represent 2.71 percent. Its main office is located one block from the town square in downtown Huntsville, the county seat of Walker County, Texas. It operates two remote drive-in facilities near its main office and a full service branch on the west side of Huntsville near the intersection of Interstate 45, the north-south artery connecting Dallas and Houston, and U.S. 190. In 1997, the bank acquired Crockett State Bank, operating in downtown Crockett, Texas and operates that location as a full service branch. Crockett is the county seat of adjacent Houston County. First National Bank offers a wide array of personal and business banking services and products including various types of deposit accounts, home mortgages, home improvement loans, commercial loans, personal loans, and trust services. All services and products are available through all the bank's locations. First National Bank is not affiliated with any multi-bank holding company or chain banking group. There are no legal, financial or other factors that would impede the bank in its efforts to meet the credit needs of its Assessment Area.

The period covered by this evaluation is June 24, 1996, the date of the most recent CRA evaluation, through July 19, 1999, the date of this CRA evaluation. In the previous evaluation, the bank was found to be "Satisfactory".

Description of the Assessment Area

The bank's Assessment Area consists of Walker and Houston counties in Texas. These counties are adjacent and located north of Houston in East Texas. The Assessment Area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. In the U.S. Census of 1990, Walker County had a population of 51 thousand. Current population estimates now run near 60 thousand. According to local Chamber of Commerce representatives, most of this growth has occurred in the latter half of the decade. The median age of the population was estimated in 1990 to be thirty years. It is believed to have declined substantially in the last nine years. Walker County is not a Metropolitan Statistical Area (MSA) nor is it part of a MSA. The 1998 Weighted Average of MSA/Non-MSAs Updated Median Family Income for Texas was \$33,900. It is this figure that is used in our analyses of income characteristics of borrowers served in the Assessment Area. The Median Family Income per the 1990 census was \$29,882. This amount determines the income characteristics of a particular area within the Assessment Area. These areas are called Block Numbered Areas. They serve much the same purpose as Census Tracts do in large cities.

Employment in Walker County is led by the Texas Department of Criminal Justice (TDCJ), the region's largest single employer. Sam Houston State University and the local school district are the second and third largest employers, accounting for over half of the

employment in the county being in public institutions. This lends a tremendous stability and resilience to the local economy. These institutions also account for other unusual characteristics. First, the prison population is substantial with seven prisons in the county. This institutional nature of this population must be considered in evaluating the credit needs of the Assessment Area, as inmates are not likely candidates for banking customers. Secondly, the presence of a four-year university, along with the management structure of a major state agency (TDCJ), skews the population towards the higher incomes. In 1990, 57 percent of the households in the county were considered upper-income, earning 120 percent of the median income for the area.

First National Bank is active in extending small business loans. The vast majority of the businesses in Walker County are “small businesses” insofar as annual revenues do not exceed

\$1 million. Many employ only a handful of people each. Although much of the housing stock is relatively new due to the boom in homebuilding over the last decade, older homes still predominate in the areas nearest the central business district. Accordingly, in addition to offering home purchase loans, the bank also extends home improvement loans to creditworthy applicants in all parts of the Assessment Area. First National Bank also extends credit to small farmers in the rural parts of the Assessment Area.

Community Contacts

During this evaluation, the examiners made contact with two people, representative of the community at large. These contacts were selected as they were believed to have a perspective on the credit needs of the local community independent of local banks. Both are long tenured residents of Huntsville and Walker County and have witnessed and participated in growth and development of each over a long period of time. One had a long career at Sam Houston State University in Huntsville and served as a County Commissioner in Walker County. The other has served with the Huntsville - Walker County Chamber of Commerce and is particularly attuned to the needs of developing businesses. Discussions with each centered on the credit needs of the local community, including those of local small businesses, housing credit needs, and the availability of consumer credit. Each was queried as to how those needs were being met with particular emphasis on any sectors of the local economy that may be under served. Their independent observations have contributed to the conclusion that creditworthy needs are being met satisfactorily from several institutions.

Conclusions about Performance Criteria

The bank’s performance under the Community Reinvestment Act (CRA) is satisfactory. Financial information submitted by the bank to its primary regulator for the three year period ending June 30, 1999 was reviewed to determine the bank’s financial capacity over the evaluation period. Data used included the bank’s ratio of loans to deposits, the composition of the bank’s loan portfolio, and the growth in both deposits and loans. For information as to the extent to which the bank lends inside its Assessment Area, the

geographic dispersion of those loans, and the distribution of loans to borrowers of different incomes and businesses of different sizes, we used data compiled by the bank. This information was derived from internal listings of loan and deposit portfolios which accumulate accounts as they are entered on the bank's books. We found the bank's process for collecting such data to be reasonable, believe the data to be reliable, and the conclusions drawn therefrom to be accurate. Accordingly, we were not limited to sampling transactions, but reviewed all transactions occurring in the periods so indicated in the respective discussions of each performance criteria.

Loan-to-Deposit Ratio

This criteria measures the extent to which the bank returns as loans the deposits it receives from its customers to the community it serves. The bank's performance under this evaluation criteria "**Meets the Standards for Satisfactory Performance**".

The average of the ratios of net loans to total deposits for each of the eight calendar quarters ending June 30, 1999 is 33.55 percent. While this bank's ratio is lower than most of the other financial institutions operating within this Assessment Area, mitigating circumstances are present. First, two of the other financial institutions in the area have the majority of their operations elsewhere. No information is available to segregate their lending efforts in the local community. The extent to which they return local deposits as local loans is unknown. The remaining competitors operate in one part of the Assessment Area, or another. Only First National Bank has deposit and lending operations in both Walker and Houston Counties. It operates full service offices in each county.

Second, in part as an accommodation to local governments and government agencies, First National Bank competes for public funds. Such monies must, in most cases by law, be secured with negotiable collateral, such as bonds. Further, they must be available for transfer to other public agencies or for expenditure by the taxing authorities to which they belong, often without notice. Accordingly, the availability of such funds for lending is substantially more limited than for other deposits.

Third, as part of its application to acquire and merge with Crockett State Bank in 1997, First National Bank of Huntsville agreed to accelerate its lending efforts. This was done, in large part, to reverse the effect of restrictive lending policies in the former Crockett bank, which had a loan-to-deposit ratio substantially below any of its competitors. Since the merger became effective in the last calendar quarter of 1997, the newly combined institutions have increased net loans from \$50,223 thousand to \$59,299 thousand as of June 30, 1999, an increase of \$9,076 thousand, or 18.07 percent. Over the same period, deposits grew from \$162,084 thousand to \$171,666 thousand, an increase of \$9,582 thousand, or 5.91 percent. Over one-third (38.77 percent) of this deposit growth, \$3,715 thousand, consisted of certificates of deposit (CDS) for which the bank could have elected to not compete. Not only did it loan out

100 percent of the “core” deposit growth of \$5,867 thousand, but it also loaned out 86.38 percent of the CDS on which it chose to compete on rate. Altogether, the bank loaned 94.72 percent of the total deposit growth over this eighteen month period. The bank’s loan-to-deposit ratio climbed from 30.99 percent as of December 31, 1997 to 34.54 percent as of June 30, 1999.

Fourth, during this same period, First National Bank originated \$4,891 thousand in home mortgages for sale to institutional investors in the secondary market. This practice is common in the industry. It allows institutions, such as local banks which rely primarily on short-term deposits for lendable funds, to make long-term loans for such things as home purchases. In 1998, the bank originated and sold forty-seven loans totaling \$3,754 thousand. In 1999, through June 30, the bank has originated and sold fourteen loans totaling \$1,137 thousand. If these loans had been included in the bank’s total of net loans as of June 30, 1999, the bank’s eighteen month loan growth rate would have been approximately 27.81 percent.

Lending in Assessment Area

This evaluation criteria measures the extent to which the bank has extended the loans it has made to borrowers in the bank’s Assessment Area. For the calendar quarter ending June 30, 1999, the bank made 795 loans. Of these, 741, or 93.21 percent are within the bank’s Assessment Area. For the entire three year period since the bank’s previous CRA evaluation, the bank’s Huntsville offices made 5,516 loans, of which 5,245, or 95.09 percent, were within Walker County.¹

Accordingly, the bank’s performance under this criteria “**Exceeds the Standards for Satisfactory Performance**”.

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

This evaluation criteria measures the degree to which the bank extends credit to all economic segments of its community. First National Bank’s performance under this criteria “**Meets the Standards for Satisfactory Performance**”.

For the second quarter of 1999, the bank’s Crockett office made 146 loans to borrowers whose income could be determined. (This office received 249 applications during this period of which 31 were denied. Of these 218 approvals, income could not be determined for 72.) Of the 146 loans, 19.86 percent were to low-income borrowers, 21.92 percent were to moderate-income borrowers, 17.12 percent were to middle-income borrowers, and 41.10 percent to upper-income borrowers. This is consistent with the demographic composition of the county indicated in the last census. Low-Income families make up

¹The bank’s Huntsville offices are used exclusively as they formed the entire bank for approximately half the period in question. Similar information for the bank’s Crockett office was not available until 1998.

26.07 percent of total families in Houston County. Moderate-income, middle-income and upper-income families represent 17.34 percent, 17.71 percent, and 38.88 percent of total families, respectively. Additionally, the county consists of seven Block Numbered Areas, of which five are middle-income and two are moderate-income. There are no low-income or upper-income areas. The middle-income areas contain 76 percent of the households, with the remaining 24 percent of households residing in moderate-income areas.

In Walker County in the second quarter of 1999, loans were extended to low-income borrowers (13.98 percent), moderate-income borrowers (19.15 percent), middle-income (20.06 percent), and upper-income (46.81 percent). Again, this is consistent with the demographic composition of the community as determined in the 1990 census. Low-income families represent 19.28 percent of total families in Walker County. Moderate-income, middle-income, and upper-income families make up 14.60 percent, 16.07 percent, and 50.05 percent of total families, respectively. Walker County contains no low-income Block Numbered Areas, two moderate-income areas, two middle-income areas, and four upper-income areas. These moderate-, middle-, and upper-income areas contain 19 percent, 24 percent, and 57 percent of the households, respectively.

Geographic Distribution of Loans

The bank's dispersion of loans within its Assessment Area, or in other words, its willingness to lend to all parts of its Assessment Area **“Meets the Standard for Satisfactory Performance”**.

The analysis of the distribution of loans within the bank's assessment area indicates all geographical areas are being served. The Assessment Area is two contiguous rural counties. The bank has no offices in a Metropolitan Statistical Area. As such, there are no *census tracts*, only *Block Numbered Areas*, or BNAs. These areas lack the socio-economic homogeneity of urban census tracts. For example, according to the 1990 census, 69.01 percent of low-income families and 78.47 percent of moderate-income families reside in middle- or upper-income BNAs in Walker County. In Houston County, which has neither lower- or upper-income BNAs, 65.56 percent of low-income families and 74.16 percent of moderate-income families live in middle-income BNAs. In Walker County, upper- and middle-income BNAs consist 29.89 percent of low-income households and 49.09 percent moderate-income households. Conversely, moderate-income BNAs consist of 43.29 percent middle- and upper-income households.

The dispersions in loans depicted in the chart, below, are quite consistent and generally follow population densities.

Dispersion of Loans Made in the 2nd Quarter of 1999 Within the bank's Assessment Area					
Huntsville Office			Crockett Office		
Block Numbered Area	Number of Loans Made	Percent of Total Loans Made	Block Numbered Area	Number of Loans Made	Percent of Total Loans Made
1900.00 <i>NA</i>	46	8.93	9501 <i>Middle</i>	17	8.63
1901.00 <i>Upper</i>	106	20.58	9502 <i>Moderate</i>	22	11.17
1902.00 <i>Middle</i>	32	6.21	9503 <i>Middle</i>	22	11.17
1903.10 <i>Upper</i>	49	9.52	9504 <i>Moderate</i>	50	25.38
1903.20 <i>Upper</i>	80	15.53	9505 <i>Middle</i>	62	31.47
1904.00 <i>Upper</i>	55	10.68	9506 <i>Moderate</i>	12	6.09
1905.00 <i>Moderate</i>	31	6.02	9507 <i>Middle</i>	12	6.09
1906.00 <i>Moderate</i>	31	6.02			
1907.00 <i>Middle</i>	85	16.51			

Further, over the three year period ending June 30, 1999, the Huntsville offices (which for the period prior to December 31, 1997 were the bank's *only* offices) were consistent in the dispersion of loans. As noted above, the concentrations of loans generally followed the concentrations of population. Many of the BNAs are sparsely populated, while other, more urban areas are more densely populated.

Response to Complaints

The bank has received no complaints since the preceding CRA evaluation that addressed the bank's performance under the Community Reinvestment Act.

Record of Compliance with Antidiscrimination Laws

An examination of the bank to determine compliance with consumer laws and regulations was conducted concurrently with this CRA evaluation. Included within the scope of this examination was a review of the bank's compliance with laws prohibiting discrimination. Financial institutions may not discriminate in lending decisions on any of the bases contained in the Fair Housing Act or the Equal Credit Opportunity Act. Our examination found no instances in which First National Bank of Huntsville had discriminated on any prohibited basis. No violations of the substantive provisions of antidiscrimination laws were noted.

Our conclusions are based on reviews of five denied black applicants who applied for purchasemoney loans for their primary residence, as compared to fifteen approved white borrowers who applied for the same purpose loans. We used a combined approach to reach this conclusion, using procedures from the *Community Bank Consumer Compliance Handbook* dated August of 1995. In addition, we selected another sample of loans secured by certificates of deposit and compared interest rates charged on lonas made to females versus loans made to males. Both samples consisted of loans made primarily in the second half of 1998 and the first half of 1999.