



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 04, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Henderson Federal Savings Bank
Charter Number 703155

130 N. Marshall Street
Henderson, TX 75652-3144

Office of the Comptroller of the Currency

1800 NW Loop 281, Suite 306
Longview, TX 75604-2516

NOTE: This document is an evaluation of this 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. 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

Henderson Federal Savings Bank has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio is more than reasonable based on its size and complexity.
- A majority of the institution's lending is extended within the assessment area.
- The distribution of loans to borrowers of different income levels is reasonable throughout the assessment area.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of Henderson Federal Savings Bank's ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. Conclusions regarding the bank's lending performance are based on all residential mortgages originated from January 1, 2010 to December 31, 2011 and a sample of 60 consumer loans originated during the same timeframe. Home refinances were excluded from our review, except for determining lending within the assessment, since the loan volume was insufficient to perform a meaningful analysis.

DESCRIPTION OF INSTITUTION

Henderson Federal Savings Bank is a \$111 million mutual thrift with its only office located at 130 North, Marshall Street, Henderson, Texas. The bank serves Rusk County and is a full service thrift offering traditional, non-complex residential, consumer, and commercial loans. The office, which includes one automated teller machine and drive-up facilities, is located in a middle-income census tract in Rusk County and offers telephone and Internet banking services. Henderson Federal Savings Bank's business strategy is to focus on residential real estate loan and consumer loan originations in its designated assessment area of Rusk County. There are no financial or legal obstacles affecting the bank's ability to meet community credit needs.

The bank was rated satisfactory during the prior Community Reinvestment Act (CRA) Examination dated May 5, 2008. The following chart reflects the distribution of the bank’s loan portfolio as of December 31, 2012:

Loan Category	\$(000)	%
Real Estate Loans	70,868	90.71
Commercial Loans	3,001	3.85
Individual Loans	3,910	5.00
Agriculture Loans	339	0.43
Other	7	0.01
Total	78,125	100

DESCRIPTION OF ASSESSMENT AREA

The Board has designated Rusk County as the bank’s assessment area. This assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low or moderate-income geographies.

Rusk County Assessment Area

Rusk County consists of one moderate-income tract and eleven middle-income tracts. The assessment area has no low or high-income tracts. The local economy is improving. Major employers in the assessment area include: Luminant Mining Company, Henderson Independent School District, East Texas ISF/MTC Correctional Facility, East Texas Medical Center - Henderson, and Wal-Mart Super Center – Henderson. Local competition is high with several local banks and payday lenders in the assessment area. Contact with a local government organization revealed the primary community credit need in the assessment area is affordable residential mortgage loans. The contact also noted the lack of affordable housing in the assessment area.

The following table reflects the demographics of the assessment area (AA):

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	12,755
Number of Households	17,336
Geographies	
Number of Census Tracts/BNA	12
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	1
% Middle-Income Census Tracts/BNA	11
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$39,102
2011 HUD-Adjusted MFI	\$55,600
Economic Indicators	
Unemployment Rate	2.95%
2011 Median Housing Value	\$57,680
% of Households Below Poverty Level	14.66%

Source: Census Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Henderson Federal Savings Bank's performance under the lending test is satisfactory. The bank has demonstrated satisfactory performance in meeting the credit needs of the community. All performance criteria of the lending test are documented below.

Loan-to-Deposit Ratio

Henderson FSB loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The loan-to-deposit ratio exceeds most institutions headquartered in or near the bank's assessment area. The bank's quarterly loan-to-deposit ratio has averaged 98 percent since the last CRA examination. The average quarterly loan-to-deposit ratio of banks within or near the assessment area for the same period was 87 percent.

Institution	Assets (as of 12/31/2012)	Average LTD Ratio
Henderson Federal Savings Bank	\$112,599	98.12%
Springhill State Bank - Longview	\$172,087	90.38%
Texas National Bank of Jacksonville	\$325,908	102.51%
Panola National Bank - Carthage	\$126,337	53.38%
American State Bank – Arp	\$241,418	74.33%
Citizens State Bank – Tyler	\$263,237	77.14%
First Federal Bank of Texas – Tyler	\$191,772	130.99%
Community Bank – Longview	\$153,677	80.02%
Average LTD		86.96%

Lending in Assessment Area

A majority of the bank’s lending activity is located inside the assessment area. We reviewed all HMDA reportable residential originations for 2010 and 2011: 153 home purchases, 48 home improvement loans, and 15 refinances. We also reviewed 20 consumer loans. Loans represented 75 percent of the number of loans and 69 percent of dollar amount of loans were extended in the bank’s assessment area. The breakdown by loan category is illustrated in the following table:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	114	74.51	39	25.49	153	11,520	68.71	5,246	31.29	16,766
Home Improvement	35	72.92	13	27.08	48	1,227	69.32	543	30.68	1,770
Home Refinance	11	73.33	4	26.67	15	1,113	75.41	363	24.59	1,476
Consumer	18	90.00	2	10.00	20	196	89.09	24	10.91	220
Totals	178	75.42	58	24.58	236	14,056	69.47	6,176	30.53	20,232

Source: HMDA, loan sample.

Lending to Borrowers of Different Incomes

The distribution of loans to borrowers of different income levels represents a reasonable penetration throughout the assessment area.

Residential real estate lending to borrowers of different income levels throughout the assessment area reflects a reasonable penetration.

Borrower Distribution of Residential Real Estate Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	6.59	5.36	23.81	16.07	27.84	20.54	41.76	58.03
Home Improvement	16.59	12.12	15.17	12.12	27.01	27.27	41.23	48.49

Source: Data reported under HMDA, HMDA aggregate

The distribution of consumer loans to borrowers of different income levels reflects a poor penetration throughout the assessment area. The distribution of consumer lending to low income borrowers represents 5 percent of the sample compared to 22.4 percent of assessment area households. Likewise, 8.33 percent of the consumer sample represents moderate-income borrowers compared to 15.07 percent of assessment area households. Mitigating factors include: 14.66 percent of assessment area households are below the poverty level and there is competition from several other banks in the assessment area in addition to several payday lenders.

Borrower Distribution of Consumer Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22.40	5.00	15.07	8.33	18.26	25.00	44.27	61.67

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion of loans throughout the bank's assessment area. The bank's assessment area, Rusk County, has only one moderate-income census tract, 9512, and no low-income census tracts.

The geographic dispersion of home purchase and home improvement loans is reasonable compared to the percentage of assessment area aggregate HMDA data.

Geographic Distribution of Residential Real Estate Loans in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	0.00	0.00	2.08	1.75	97.92	98.25	0.00	0.00
Home Improvement	0.00	0.00	5.43	2.86	94.57	97.14	0.00	0.00

Source: Data reported under HMDA; HMDA aggregate

The geographic dispersion of consumer loans is poor compared to the percentage of assessment area households for the moderate-income census tract. The loan sample revealed 3.33 percent of consumer loans are originated to households in the moderate-income census tract compared to 6.11 percent of assessment area households comprising that census tract. Only 5.74 percent of the assessment area’s population is located in this census tract. Additionally, 22.4 percent of census tract 9512 households are below the poverty level. A branch of Citizens National Bank Henderson is the only banking facility in this moderate-income census tract. The residents living in census tract 9512 are equal-distant from Henderson and Nacogdoches, with each city has numerous banks.

Geographic Distribution of Consumer Loans in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	6.11	3.33	93.89	96.67	0.00	0.00

Source: Loan sample, U.S. Census data.

Responses to Complaints

Henderson Federal Savings Bank has not received any complaints or public comments regarding CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.