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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

February 23, 1998

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**East Texas National Bank  
Charter Number 12556**

**207 West Spring Street  
Post Office Box 770  
Palestine, Texas 75802-0770**

**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 Community Reinvestment Act (CRA) performance of **East Texas National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 23, 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.

East Texas National Bank has a satisfactory record of meeting community credit needs. The bank's average loan-to-deposit ratio is reasonable at 54.32% when compared to other area banks. A substantial majority of the bank's loans are extended within its assessment area and credit activity reflects a reasonable distribution to borrowers of different income levels. Further, loan activity is reasonably distributed to geographies with different income levels.

The following table indicates the performance level of **East Texas National Bank** with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>EAST TEXAS NATIONAL BANK</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		X	
Response to Complaints	No complaints were received since the prior examination.		

## **DESCRIPTION OF INSTITUTION:**

East Texas National Bank is a \$102 million bank. Bank ownership is held through a two tiered holding company, with East Texas Dover, Inc., owning over 99% of the bank's outstanding stock, and East Texas National, Inc. owning 100% of East Texas Dover's stock. The bank's main office is located at 207 West Spring Street, Palestine, Texas. In addition to the main office, the bank operates two branch offices. These offices are located at 101 North McKinney in Mexia, Texas and at 1718 11th Street in Huntsville, Texas. The Palestine office is located in a moderate income block numbering area (BNA), while the Mexia branch is located in a middle income BNA and the Huntsville branch is located in an upper income BNA. The institution is retail oriented and offers a full range of banking services at each office. Primary loan products offered include commercial and consumer loans. Outstanding loans as of December 31, 1997 totaled \$52 million and were distributed as follows: 47% were commercial and commercial real estate; 24% were consumer related; 24% were 1-4 family residential mortgages; and 5% were agriculture loans. There are no legal impediments or other factors which inhibit the bank's ability to meet the needs of the community. The last CRA examination completed at this bank was dated December 31, 1994.

## **DESCRIPTION OF THE ASSESSMENT AREAS:**

Management and the Board have designated three separate assessment areas based on the location of the main bank and branch locations. Our conclusions were based on the bank's lending activity at the following two assessment areas.

### **Palestine Assessment Area:**

The Board has designated all of Anderson County as the Palestine Assessment area. This area is not part of a Metropolitan Statistical Area (MSA). Communities located within this assessment area include Palestine, Frankston, Montalba, Tennessee Colony, Cayuga, and Elkhart. This area has a total population of 48,024. The block numbering areas (BNA) within this assessment consist of 1 moderate income area, 6 middle income areas, and 3 upper income areas. The distribution of families by income level, regardless of location, consists of the following: 19% of the families are low income, 15% are moderate income, 21% are middle income, and 45% are upper income. The HUD 1997 median family income for the area is \$31,500. Major employers include: the Texas Department of Criminal Justice (state prison system),

Wal-Mart Distribution Center, Trinity Valley Medical Center, and Wal-Mart Super Center.

**Huntsville Assessment Area:**

Management has designated all of Walker County as the Huntsville Assessment Area. This area is not part of a MSA. Communities located in this assessment area include Huntsville, New Waverly, and Riverside City. This area has a total population of 50,917. The block numbering areas (BNA) within this assessment consist of 2 moderate income areas, 2 middle income areas, and 4 upper income areas. The distribution of families by income level, regardless of location, consists of the following: 19% of the families are low income, 15% are moderate income, 16% are middle income, and 50% are upper income. The HUD 1997 median family income for the area is \$31,500. Major employers include: the Texas Department of Criminal Justice (state prison system), Sam Houston State University, the Huntsville I.S.D., and Louisiana Pacific Corp.

As a part of our examination, we contacted a member of a business group in each assessment area. The officials contacted stated that the local financial institutions are supportive of the community and have taken positive steps toward meeting identified credit needs. The officials were not aware of any formal studies performed which would identify community credit needs.

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

### **Loan-To-Deposit Ratio:**

East Texas National Bank has a reasonable loan-to-deposit ratio given the bank's size, financial condition, and assessment area credit needs. The bank's loan-to-deposit ratio has averaged 54.32% since the prior CRA examination dated December 31, 1994. The average loan-to-deposit ratio for all banks within the above assessment areas for the same time period was 51.79%, and ranged from 29.09% to 71.92%.

### **Lending in Assessment Area:**

A substantial majority of the bank's lending activity is located within its assessment areas. We reviewed 23 residential mortgages from the Palestine assessment area and 17 residential mortgages from the Huntsville assessment area. These mortgages represent all of the bank's 1-4 family residential mortgages originated during 1996 and 1997. Further, we also reviewed a total of 25 business loans and 25 consumer loans from each of the Palestine and Huntsville assessment areas. All loans in these samples were originated during 1997. Approximately 89% of the Palestine loans by number and 89% by dollar amount were extended within the bank's assessment area. Additionally, approximately 84% of the Huntsville loans by number and 82% by dollar amount were extended within that assessment area. Refer to Appendix A Charts 1 and 2 for the distribution of loans by loan type.

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

The distribution of consumer loans within the bank's assessment area reflects a reasonable penetration among individuals of different income levels. The bank's loan distribution generally approximates the income characteristics of the assessment area. While the distribution of 1-4 Family mortgages was not as representative of the area demographics, this loan type is not a major loan product of the bank, as evidenced by the limited number of 1-4 Family mortgages originated during 1996 and 1997. In addition, the distribution of business loans also reflects a reasonable penetration among businesses of different sizes. Based on our review, 70% of the business loans we sampled which were originated within the Palestine assessment area, were to small businesses with gross annual revenues of less than one million dollars. Moreover, approximately 68% of business loans in the Huntsville assessment area were to small

businesses. Refer to Appendix A, Charts 3 and 4 for details of the bank's loan distribution by borrower income.

**Geographic Distribution of Loans:**

The geographic distribution of loans reflects a reasonable dispersion throughout the bank's assessment areas when compared to that area's demographic makeup. Refer to Appendix A, Charts 5 and 6 for details of the bank's geographic distribution of loans.

**RESPONSE TO COMPLAINTS:**

There have been no written complaints related to CRA performance since the prior CRA examination. Further, we did not identify any violations involving anti-discrimination laws or regulations.

**APPENDIX A**

**SUMMARY OF LENDING ACTIVITY**



**Chart 1**

<b>Analysis of Lending Inside and Outside Assessment Area Palestine Assessment Area</b>								
	Inside				Outside			
Loan Type:	#	%	\$ (000)	%	#	%	\$ (000)	%
Mortgage	20	87%	1,547	89%	3	13%	182	10%
Consumer	22	88%	70	56%	3	12%	54	44%
Commercial	23	92%	1,528	92%	2	8%	139	8%
Totals	65	89%	3,146	89%	8	11%	375	11%

**Chart 2**

<b>Analysis of Lending Inside and Outside Assessment Area Huntsville Assessment Area</b>								
	Inside				Outside			
Loan Type:	#	%	\$ (000)	%	#	%	\$ (000)	%
Mortgage	12	71%	577	67%	5	29%	288	33%
Consumer	22	88%	70	86%	3	12%	11	14%
Commercial	22	88%	1,058	93%	3	12%	85	7%
Totals	56	84%	1,705	82%	11	16%	384	18%

**Chart 3**

<b>Lending to Borrowers of Different Income Levels Palestine Assessment Area</b>										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	19%		15%		21%		45%		100%	
Loan Types:	#	%	#	%	#	%	#	%	#	%
Residential	1	6%	0	0%	1	6%	15	88%	17	100%
Consumer	4	18%	5	23%	5	23%	8	36%	22	100%
Revenue Ranges	Less than \$100,000		\$100,000- \$500,000		\$500,000-- \$1,000,000		Over \$1,000,000		Total	
Commercial	2	9%	10	44%	4	17%	7	30%	23	100%

**Chart 4**

<b>Lending to Borrowers of Different Income Levels Huntsville Assessment Area</b>										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	19%		15%		16%		50%		100%	
Loan Types:	#	%	#	%	#	%	#	%	#	%
Residential	0	0%	1	8%	4	33%	7	58%	12	100%
Consumer	4	18%	6	27%	6	27%	6	27%	22	100%
Revenue Ranges	Less than \$100,000		\$100,000- \$500,000		\$500,000-- \$1,000,000		Over \$1,000,000		Total	
Commercial	2	9%	10	45%	3	14%	7	32%	22	100%

**Chart 5**

<b>Geographic Distribution of Loans Palestine Assessment Area</b>								
<b>Geography Characteristics</b>	<b>Low Income Tracts</b>		<b>Moderate Income Tracts</b>		<b>Middle Income Tracts</b>		<b>Upper Income Tracts</b>	
Population	NA		2,584		27,475		17,965	
Percentage	NA		5%		57%		38%	
<b>Loan Sample</b>	<b>#</b>	<b>\$ Amt</b>	<b>#</b>	<b>\$ Amt</b>	<b>#</b>	<b>\$ Amt</b>	<b>#</b>	<b>\$ Amt</b>
Residential Loans	NA	NA	5%	2%	80%	89%	15%	9%
Consumer Loans	NA	NA	18%	14%	68%	52%	14%	34%

**Chart 6**

<b>Geographic Distribution of Loans Huntsville Assessment Area</b>								
<b>Geography Characteristics</b>	<b>Low Income Tracts</b>		<b>Moderate Income Tracts</b>		<b>Middle Income Tracts</b>		<b>Upper Income Tracts</b>	
Population	NA		10,706		11,325		28,886	
Percentage	NA		21%		22%		57%	
<b>Loan Sample</b>	<b>#</b>	<b>\$ Amt</b>	<b>#</b>	<b>\$ Amt</b>	<b>#</b>	<b>\$ Amt</b>	<b>#</b>	<b>\$ Amt</b>
Residential Loans	NA	NA	17%	5%	8%	14%	75%	81%
Consumer Loans	NA	NA	18%	26%	14%	7%	68%	67%