



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

August 24, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Follett National Bank
Charter Number 12101

241 Main Street
Follett, Texas 79304

Office of the Comptroller of the Currency
Southwestern District
500 N. Akard, 1600 Lincoln Plaza
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 Follett National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 22, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The Follett National Bank (FNB) demonstrates satisfactory performance under the CRA. The following factors support this evaluation:

- The bank's loan to deposit ratio of 59% is reasonable given the size of the bank and the needs of the local economy.
- A majority of the bank's loans are extended to borrowers within the assessment area, 64% by volume and 67% by number for the entire portfolio.
- There is reasonable penetration among individuals of different income levels and businesses and farms of different sizes.
- No complaints have been filed regarding bank performance under the CRA.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	THE FOLLETT NATIONAL BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
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	Because there are no low- or moderate-income areas, this review is not significant. However, the bank's reports reflect lending throughout all parts of the assessment.		
Response to Complaints	There have been no complaints filed with the bank regarding performance under the Community Reinvestment Act.		

DESCRIPTION OF INSTITUTION

The Follett National Bank (FNB) is a \$30 million bank in Follett, Texas, in the far northeast corner of the Texas Panhandle, approximately forty miles east of Perryton, Texas. The bank is the only institution operated by the holding company, Follett Bancshares, Inc. There are no branches or ATM's. The bank offers a variety of loan and deposit products and other banking services to meet the needs of the local community. Loans represent more than 50% of total assets as of June 30, 1998. The bank recently increased business hours to serve the needs of the community better. Management plans to establish an ATM to further extend banking services to the bank's customers.

Deposit products offered are savings accounts, Money Market Deposit Accounts, regular and interest-bearing checking accounts, including accounts with low- or no-fee accounts, and Certificates of Deposits. Loans are extended for consumer purposes including residential housing and home equity loans, and also loans for automobiles and other goods. FNB lends to businesses for operating expenses, inventory, equipment, or to carry receivables or purchase real estate. Farm loans are extended for crop or livestock operations, equipment, or real estate. They also make loans to allow local 4-H or FFA students complete their projects. FNB provides funding for students in the communities of Booker, Lipscomb, Darrouzett, and Follett for education needs. Chart 1 that follows shows the composition of the portfolio:

Chart 1

PORTFOLIO COMPOSITION BY PURPOSE		
TYPE	BALANCE	% OF LOANS
LN TO FINANCE AG PROD	5,638.6	36.13%
FARMLAND	3,260.9	20.89%
CONSUMER-OTHER	2,156.0	13.81%
COMM & INDUSTRIAL	2,030.0	13.01%
1-4 FAM RES- 1ST LIEN	1,722.3	11.04%
COMM RE	479.9	3.07%
1-4 FAM RES- 2ND LIEN	319.2	2.05%
TOTAL	15,606.9	100.00%

Based on June 30, 1998 Call Report

FNB is not subject to legal or other constraints to lending. There are no external factors that prevent the bank from achieving their strategic goals.

DESCRIPTION OF LIPSCOMB COUNTY

Lipscomb County, Texas is bordered by Oklahoma on the north and the east. The county consists of three block numbering areas (BNA's) which are identified as FNB's assessment area (AA). The population of the county was shown as 3,143 as of the 1990 census. There was approximately a 32% drop in population from the early 1980's to the early 1990's. The economy is strongly reliant on agriculture and agricultural support businesses. This is also an area that at times has experienced significant oil and gas exploration and development.

Approximately 25% of the population in the county is engaged in farm or agriculture-related industries. The largest individual employers in the county are the various school districts. In addition, a hog operation facility is anticipated to expand, providing increased employment opportunities. Unemployment was estimated at 1% during the 1990 Census.

All the BNA's in the county are identified as middle income areas. There are low- and moderate-income persons living throughout the county as is shown in Chart 2 below:

Chart 2

COUNTY DEMOGRAPHICS BY BNA				
BNA	9501	9502	9503	COUNTY
INC LEVEL	MIDDLE	MIDDLE	MIDDLE	MIDDLE
INCOME % OF MSA	107.61	119.07	105.60	113.68
% MINORITY	6	19	5	14
TOTAL # FAMILIES	182	524	214	920
# LOW INC FAMILIES	30	59	35	124
# MOD INCOME FAMILIES	28	76	38	142
# MID-UPPER INCOME FAMILIES	124	389	141	654
# PERSONS	624	1,833	686	3,143

Based on Demographic Data obtained for Lipscomb County, Texas

As the chart shows, approximately 13.5% of families have income below 50% of the median and an additional 15.5% have an income less than 80% of the median income level for non-metropolitan statistical areas (MSA's) of the state. Demographic information shows that approximately 14% of households in the county are below the poverty level.

There are branches of national banks from nearby counties in two area towns. These branches compete with FNB for local deposits and loans. Management of FNB also identifies a savings and loan association from Perryton, as a primary competitor in the residential and agricultural lending areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

FNB has a reasonable loan to deposit ratio (LTD), given the bank's size and the economy and competition in the area. This meets the requirement for satisfactory performance. At June 30, 1998, net loans represent 59.3% of total deposits. Loan balances are somewhat cyclical due to the concentration in agricultural lending. The average LTD since September 1995 is 58.7%. We noted that FNB holds almost 44% of the total deposit balances within the assessment area. We reviewed the LTD of other banks in similar communities and economies. These banks had LTD's as of June 30, 1998 ranging from below 25% to above 78%. The banks with more competition reflect lower LTD levels, while banks' in more diversified economies, generally, had higher LTD levels. With the presence of competition for loan and deposit balances and considering the size of the bank, FNB's ratio is regarded as reasonable.

We also noted from reviewing sources of income, that a large portion of the income of county residents comes from transfer payments or dividend payments. These are persons who are receiving government payments such as welfare or retirement or who have investments, such as oil and gas properties, savings, etc. These factors influence the lending needs of the community. We observed that FNB makes loans to both these groups of persons, according to their needs.

Lending within the Assessment Area

A majority of loans are within FNB's AA and meet the standards for satisfactory performance. We determined through review and verification of testing performed by management, as of February 1998, which reflects that 64% of dollar volume and 67% of loans by number were to borrowers within the bank's AA. Based on management reports of loans funded during 1997, we noted that 72% of the loan advances were to borrowers within the AA. We confirmed the bank's information using the loans selected in the compliance review. These showed that 78% by volume and 80% by number of the loans sampled were to borrowers in the AA.

Because there are no low- or moderate-income BNA's in the county, a review of the geographic distribution throughout the AA is not necessary.

Lending to borrowers of different income or revenue levels

There is reasonable penetration among individuals of different income levels and businesses and farms of different sizes. We sampled all loan advances during March and August of 1997 to observe lending across different income and revenue levels. Income information is generally maintained in loan files, except for students, retired persons, or on CD-secured loans. We

grouped the loan advances by category, personal, agriculture, or commercial, and evaluated the lending in each category by income or revenue as was shown in the files.

Chart 3 below shows the amount of loans funded to individual borrowers according to the income level noted in the file. It also compares the percentage funded to the level of low-, moderate-, and middle- to upper- income families in the county. It reflects the fact that FNB's lending across income levels is reasonable based on the demographics of the county.

Chart 3

LENDING TO INDIVIDUALS OF DIFFERING INCOME LEVELS					
Income Level	Low	Moderate	Middle	Upper	Total
\$ Advanced	51,077	50,961	73,474	207,465	382,977
% of Advances	13.34%	13.31%	19.19%	54.17%	100.00%
% of Families	13.49%	15.45%	22.85%	48.31%	100.00%

Based on our review of income levels of individual borrowers in the sample

We used the same time frame to sample loans made to small farms and small businesses, based on the revenue levels reported by the borrowers. We aggregated this information in Chart 4.

Chart 4

LENDING TO BUSINESSES & FARMS WITH DIFFERING REVENUES				
LOANS TO	BUSINESS		FARM	
Revenue	\$	%	\$	%
≤ 100M	384,126	61.2%	750,177	53.6%
> 100≤250	44,450	7.1%	292,494	20.9%
> 250≤500			356,265	25.5%
> 250≤1,000	198,813	31.7%		
TOTAL	627,389	100.0%	1,398,936	100.0%

Based on our review of revenue levels for businesses and farms in the sample.

The information in the chart shows that the larger percentages of loans were made to businesses and farms with lower levels of revenue. This indicates that the bank makes a reasonable level of loans to small farms and businesses.

Other Information

A fair lending review was performed with this evaluation of CRA performance. Based on that review, there were no indication of illegal discrimination or disparate lending practices.

The bank's public file contained no complaints regarding performance under CRA.