



Comptroller of the Currency
Administrator of National Banks

Small
Bank

PUBLIC DISCLOSURE

June 8, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Jefferson National Bank
Charter Number 18060**

**109 East Broadway
Jefferson, Texas 75657**

**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 **Jefferson National Bank** prepared by the **Office of the Comptroller of the Currency** the institution's supervisory agency, as of **June 8, 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 **Needs to Improve**.

Jefferson National Bank's lending performance is below other banks in the area having similar characteristics, and reflects a lack of adequate responsiveness to community credit needs. The following describes the bank's performance:

- ▶ The loan-to-deposit ratio does not meet the standard for satisfactory performance given the bank's size, financial condition, and assessment area credit needs. The bank's ratio is substantially below similarly situated banks in the surrounding area.
- ▶ A substantial majority of the bank's loans are extended within its assessment area.
- ▶ Credit activity is reasonably distributed to borrowers of different income levels.
- ▶ Loan activity also reflects a reasonable distribution to geographies with different income levels.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Jefferson 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		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION:

Jefferson National Bank is a \$33 million dollar bank. The bank’s main office is located at 109 East Broadway, Jefferson, Texas. There are no branch offices or automated teller machines (ATM’s). The institution is retail oriented and offers full service banking. Loan products offered include real estate loans, consumer loans, and commercial loans. Outstanding loans on March 31, 1998 totaled \$9 million and represented 28% of net deposits. The loan portfolio is distributed as follows: 27% are commercial loans; 43% are consumer related; and 30% are real estate related. There are no legal impediments or other factors which inhibit the bank’s ability to meet the needs of the community. The previous Community Reinvestment Act Examination was conducted in August of 1995 at which time the bank was assigned a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA:

The Board has designated Marion County as their assessment area based on the central location of the main office. The assessment area includes block numbering areas (BNAs) 9501, 9502, 9503, and 9504. Block numbering area 9504 encompasses the city of Jefferson while BNA 9503 encompasses Lake of the Pines. The BNAs within the bank’s assessment area include two moderate income areas and two middle income areas. The Community Reinvestment Act defines moderate income tracts as those areas where the median family income is at least 50% and less than 80% of the area's Metropolitan Statistical Area (MSA) median income. Furthermore, the act defines a middle income tract as at least 80% and less than 120%. As can be seen from the following chart, there is not a significant difference in the percentage of family income to the MSA median income in BNAs 9502, 9503, and 9504.

FAMILY INCOME AS A PERCENTAGE OF MSA MEDIAN INCOME				
BNA TRACTS	9501	9502	9503	9504
PERCENTAGE	91.15%	77.69%	71.81%	80.24%
TRACT DESIGNATION	Middle	Moderate	Moderate	Middle

The population within the assessment area totals 9,984 persons according to the 1990 Census Bureau data. Approximately 31% of the families are low income, 20% are moderate income, 19% are middle income, and 30% are upper income. The U.S. Census 1990 median family income for the assessment area is \$24,586. Major industries within Marion County include agriculture, timber, manufacturing, retail sales and services, and government agencies. Major employers include International Paper, Lodi Drilling, and Blackburn Syrup.

Competition within the bank's assessment area is moderate. There is one other local financial institution and a branch office of a financial institution whose main office is located outside the assessment area.

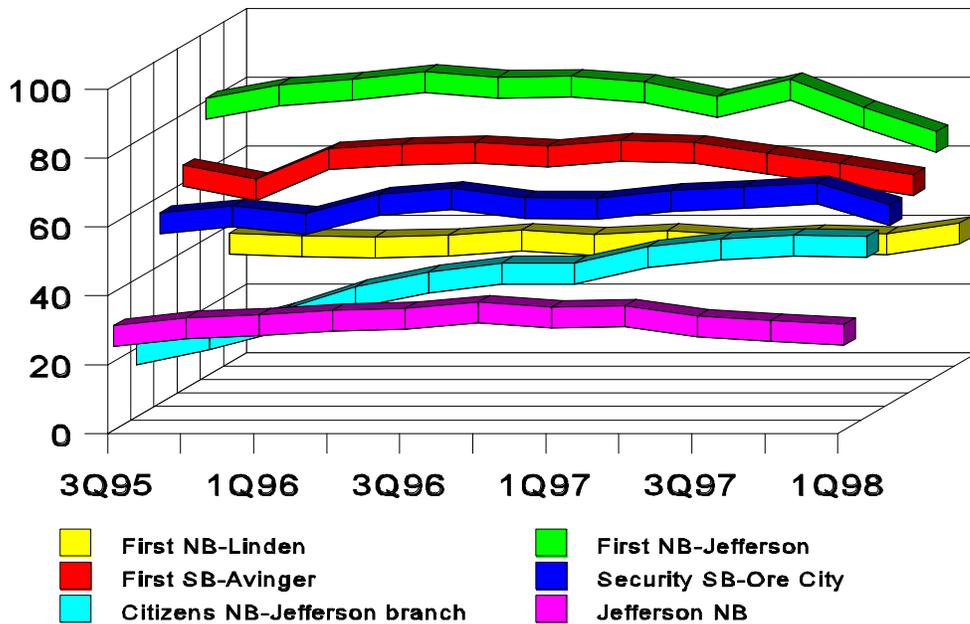
As part of our evaluation, we contacted an official from a local business organization. This individual stated that in his/her opinion, the primary community credit need was consumer and small business related loans. This individual went on to say that, the local banks do a good job of qualifying low- to-moderate income applicants for consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

Jefferson National Bank's loan-to-deposit ratio is **less than reasonable** given the bank's size, financial condition, and assessment area credit needs. The bank's loan-to-deposit ratio has averaged 30.73% since the prior CRA Examination on August 15, 1995. As of March 31, 1998, the ratio was 28% and trending downward. The bank's loan-to-deposit ratio is substantially lower than other banks within the assessment area and other banks in the surrounding area. The loan-to-deposit ratio for the two other financial institutions in Jefferson averaged 59.22%. The average loan-to-deposit ratio for banks in the surrounding area for the same time period was 50.98%. There were no factors identified which would prohibit the bank from expanding their lending activities.

Loan-to-Deposit Ratio



Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 30 consumer loans, 25 residential mortgages, and 19 business loans originated in 1996, 1997, and year-to-date 1998. This sample reflected approximately 88% of the number of loans and 97% by dollar amount were extended within the bank's assessment area. The breakdown by loan category is illustrated below:

Residential Mortgages	Number	Percent	Dollar Amount (000's)	Percent
Inside Assessment Area	22	88.00%	\$741	95.00%
Outside Assessment Area	3	12.00%	\$39	5.00%

Business Loans	Number	Percent	Dollar Amount (000's)	Percent
Inside Assessment Area	17	89.47%	\$976	98.32%
Outside Assessment Area	2	10.53%	\$17	1.68%

Consumer Loans	Number	Percent	Dollar Amount (000's)	Percent
Inside Assessment Area	26	86.67%	\$88	90.71%
Outside Assessment Area	4	13.33%	\$9	9.29%

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

Our sample of residential and consumer loans within the assessment area resulted in the following distribution:

DISTRIBUTION BY BORROWER INCOME								
Demographic Characteristics	Low Income		Moderate Income		Middle Income		Upper Income	
Family Income	31.38%		20.04%		19.09%		29.48%	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Residential Loans	0	0	4.55%	4.05%	18.18%	16.00%	77.27%	79.95%
Consumer Loans	19.23%	18.75%	30.77%	32.66%	34.62%	32.42%	15.38%	16.17%

The distribution of consumer loans reflects a reasonable penetration among individuals of different income levels. The distribution of residential loans is concentrated to middle and upper income individuals. However, competition for mortgage loans is high, thus limiting the bank's ability to expand their residential loan activities. During 1997 and year-to-date 1998, the bank received 11 home purchase or construction applications. Of those 11, five were approved, four were rejected, and two were withdrawn. Two of the rejections were to low-to-moderate income individuals; however, both applicants had poor credit histories with the bank and other creditors.

The distribution of business loans also reflects a reasonable penetration among businesses of different sizes. Based on our review, 88% of the business loans were to small businesses with gross annual revenues less than one million dollars. We reviewed a sample of 17 loans originated within the assessment area during 1996, 1997, and year-to-date 1998. The chart below illustrates the dispersion of small business loans.

SMALL BUSINESS DISPERSION BASED ON REVENUES								
Revenue Ranges	Less than \$100,000		\$100,000 to \$500,000		\$500,000 to \$1,000,000		Over \$1,000,000	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Commercial Loans	4	173	9	378	2	100	2	325

Geographic Distribution of Loans:

Our sample of residential and consumer loans reflected the following distribution:

DISTRIBUTION BY BLOCK NUMBERING AREA								
Geography Characteristics	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts	
Number of Families	N/A		1,589		1,260		N/A	
Percentage	N/A		55.77%		44.23%		N/A	
Loan Sample	#	\$ Amt	#	\$ Amt	#	\$ Amt	#	\$ Amt
Residential Loans	N/A	N/A	27.27%	34.01%	72.73%	65.99%	N/A	N/A
Consumer Loans	N/A	N/A	3.85%	4.55%	96.15%	95.45%	N/A	N/A

The geographic distribution of residential loans reflects a reasonable dispersion throughout the bank’s assessment area. However, there is low penetration of consumer loans to moderate income areas. A majority of consumer loans were granted in BNA 9504, which is a middle income area, and encompasses Jefferson and the bank’s office. In addition, the demographic information for BNA 9504 indicates there is not a significant difference in the income characteristics between this area and the moderate income areas. See *Description of the Assessment Area* section of this Evaluation for details.

Response to Complaints

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