



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 20, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First State Bank, N.A.,
Charter #17614**

**547 Chestnut Street
Abilene, Texas 79602**

**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 supervisor or any 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 **First State Bank , N.A. Abilene, Texas** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 20, 1997**. 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**.

First State Bank, N.A. is responsive to the credit needs of the community, including low- and moderate-income individuals and areas. This is demonstrated by the following:

- a reasonable cumulative loan to deposit ratio of 44.83% and a current (March 31, 1997) loan-to-deposit ratio of 53.31%.
- a significant majority of the loans granted are within the assessment areas.
- geographic distribution of loans within the assessment areas is reasonable.
- loans are made to individuals and small business of different income levels. Small business loans include Small Business Administration and Farmers Home Administration assisted loans.

The following table indicates the performance level of First State Bank, N.A. - Abilene, Texas with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | <u>FIRST STATE BANK, N.A.</u> 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 received since the prior examination. | | |

DESCRIPTION OF INSTITUTION

First State Bank, N.A. (FSB) is headquartered in Abilene, Texas. FSB is 183 miles from Dallas, Texas. FSB, a full-service retail bank, employs about 121 people. Total assets as of December 31, 1996 were \$204 million. By March 31, 1997, FSB grew to \$265 million by acquisition of Western National Bank of Lubbock, Texas. FSB has branch offices in six different cities in west Texas. These branches are strategically located in key population centers and cover a substantial geographic area. Branch locations cover a circular area beginning in Abilene, Texas northwest 175 miles on highway 84 to the Lubbock, Texas branch, then 165 miles southwest on highways 82/385 to Odessa, Texas, then 140 miles southeast on highways 158/87 to the southern point of San Angelo, Texas, then north on highway 67 to Winters, Texas and continuing north on highway 83 back to Abilene. The Stamford branch is 35 miles north of Abilene. FSB Abilene consolidated two affiliate banks, The Winters State Bank and First National Bank in Stamford in 1994 as branches. On January 1, 1996, FSB acquired Peoples National Bank, Winters, Texas and merged the bank into the existing Winters branch. A branch of Coastal Banc, a savings and loan association was acquired on May 27, 1996 which opened as FSB's San Angelo, Texas branch. On December 31, 1996, FSB Odessa, operating under an independent charter, merged with FSB Abilene. Effective January 28, 1997, Western National Bank of Lubbock became the most recent branch.

The bank's primary business focus is consumer loans including indirect automobile loans and small business loans which also include Small Business Administration (SBA) guaranteed loans. As of March 31, 1997, consumer lending represents 46% of total loans with business and agricultural loans comprising an additional 36%. Real estate related lending represents only 18% of the bank's total lending which is consistent with the bank's primary lending focus. FSB is a certified SBA lender. FSB is a wholly owned subsidiary of Independent Bankshares, Inc., 547 Chestnut St., Abilene, Texas 79602. FSB has no legal impediments in meeting the requirements of the Community Reinvestment Act (CRA). The prior CRA rating for FSB Abilene, dated June 15, 1995, was "Satisfactory".

Recent community contact interviews conducted by examiners from the FDIC indicated needs for affordable housing and small business loans.

DESCRIPTION OF ASSESSMENT AREA

FSB has five separate assessment areas (A/A) comprising four different Metropolitan Statistical Areas (MSAs) plus 10 non-MSA counties. Identified MSAs are Abilene, San Angelo, Odessa/Midland and Lubbock. Performance was analyzed within each MSA and the remaining non-MSA areas were grouped together based on the limited population and the homogeneous nature of the non-MSA counties. The Department of Housing and Urban Development (HUD) defines four different income categories. Those categories are: "Low," defined as below 50% of the median MSA family income (MFI); "Moderate," as those whose income is between 50-79% of MFI; "Middle," as those whose income is between 80%-119% of MFI; and, "High," as those

whose income is greater than 120% of MFI. Median family income will vary depending on which MSA is under review. Non-MSA areas use the same 4 categories but defines the categories based on the statewide non-MSA median family income, which updated through March 31, 1997, is \$31,500. These figures are applied to census tracts and block numbering areas as a whole, and to individual borrowers within any census tract or block numbering area.

Abilene

This assessment area is comprised of all of Taylor County and is identified as the Abilene - MSA # 40. Total population is 119,655 with the median MSA family income at \$37,500. Out of a total of 36 census tracts (CTs), 1 is identified as Low income, 14 are Moderate income, 13 are Middle income, and the remaining 8 are High income CTs or N/A. Abilene MSA shows the total number of households (HH) as 43,217. Distribution within the MSA reflects: 1% of HH in Low income census tracts (CTs); 27% of HH in Moderate income CTs; 50% of HH in Middle income CTs; and, 22% of HH in High income CTs. Based on branch data, the loan to deposit ratio for this branch is 55%. The economy in Abilene is improving from the previous decline in oil and gas production and cutbacks in the defense industry. Unemployment is low. Major employers are Dyess Air Force Base, Texas Instruments, General Dynamics, Pride Refining and the Abilene ISD. Competition includes NationsBank, BankOne, First National Bank, Bank of America, Security State Bank and United Bank & Trust. There are also three savings and loans and 15 finance companies.

San Angelo

This assessment area is comprised of all of Tom Green County and is identified as the San Angelo/Tom Green County MSA #7200. Total population is 98,458 with the median MSA family income at \$38,200. Out of a total of 23 CTs, 2 are Low income, 5 are Moderate income, 11 are Middle income, and 5 are High income. San Angelo MSA shows the total number of HH as 35,638. Distribution within the MSA reflects: 3% of HH in Low income CTs; 19% of HH in Moderate income CTs; 51% of HH in Middle income CTs; and, 26% of HH in High income CTs. Based on branch data, the loan to deposit ratio for this branch is 43%. The economy of San Angelo is based on agriculture, oil & gas and retail services and is improving. Major employers are Goodfellow AFB, Angelo State University, Sitel, Inc., Johnson & Johnson, and two hospitals, Shannon and Columbia. Competition includes banks, savings and loans, credit unions, and local finance companies.

Odessa-Midland

This assessment area is comprised of all of Ector and Midland Counties and is identified as the Odessa-Midland MSA #5800. Total population is 225,545 with the median MSA family income at \$37,500. Out of a total of 43 CTs, 5 are Low income, 14 are Moderate income, 18 are Middle income, and the remaining 6 are identified as High income. Odessa-Midland MSA shows the total HH as 81,363. Distribution within the MSA reflects: 6% of HH in Low income CTs; 21% of HH in Moderate income CTs; 36% of HH in Middle income CTs; and, 37% of HH in High income CTs. Based on branch data, the loan to deposit ratio for this branch is 61%. The economy which is closely tied to the oil and gas industry is stable. Major employers are City of Odessa, Phillips Petroleum, Ector County ISD, Rexene Corporation and Medical Center Hospital. Primary

competitors are banks such as Western National Bank, Texas Commerce Bank and American Savings Bank. There are also about 15 local finance companies.

Lubbock

This assessment area is comprised of all of Lubbock County and is identified as the Lubbock MSA # 4600. Total population is 222,636 with the median MSA family income at \$39,400. Out of a total of 63 CTs, 8 are Low income, 11 are Moderate income, 28 are Middle income, with the remaining 16 identified as High income or N/A. Lubbock MSA shows the total number of HH as 81,362. Distribution within the MSA reflects: 8% of HH are in Low income CTs; 18% of HH are in Moderate income CTs; 48% of HH are in Middle income CTs; and, 26% of HH are in High income CTs. Based on branch data, the loan to deposit ratio for this branch is 89%. The local economy is based on agriculture and is improving. Major employers are Texas Tech University, Methodist Children's Hospital, Lubbock ISD, and City of Lubbock. Primary competitors are NationsBank, Norwest Bank, N.A., Plains N.B. of West Texas, American State Bank and Lubbock N.B. There are also about 19 finance companies.

Non-MSA Assessment Area

This assessment area is comprised of the following counties which are adjacent to one or more FSB branches: Coke, Crockett, Fisher, Haskell, Irion, Jones, Runnels, Schleicher, Shackelford and Stonewall. Total population within all 10 counties is 56,896 with the statewide median non-MSA family income at \$31,500. Out of a total of 26 CTs, 1 is Moderate income, 22 are Middle income, with the remaining 3 identified as High income. None of the CTs were identified as Low income. These 10 counties show total number of HH as 21,764. Distribution within all 10 counties reflects that: 0% of HH are in Low income CTs; 7% of HH are in Moderate income CTs; 88% of HH are in Middle income CTs; and, 5% of HH are in High income CTs. Within the non-MSA area FSA has branches at Winters and Stamford, Texas. Based on branch data, the loan to deposit ratio for the Winters branch is 31% and the Stamford branch is 19%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

First State Bank, N.A., Abilene, Texas has a satisfactory level of performance in meeting the credit needs of its community, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

● Loan to Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance. The bank's cumulative average LTD ratio, since the prior examination, of 44.83% is lower than the 54.31% current (March 31, 1997) LTD ratio average of all banks in the assessment areas. However, First State Bank's current LTD ratio of 53.31% is only slightly lower than the current average of all banks in the assessment areas. Overall, the bank's cumulative average LTD ratio and current LTD ratio is comparable to other banks in the assessment areas. Banks in the assessment areas had LTD ratios ranging from 27.60% to 78.42%.

● **Lending in the Assessment Areas**

A significant majority of loans (number and dollar volume) are in the bank's assessment areas based on the bank's geographic analysis reports for new loans made between 7/1/96 and 6/30/97. The bank made 93% of the subject loans, both number and dollar volume, inside the Abilene and San Angelo MSA's and the surrounding ten county non-MSA areas. The bank made 93% of the number and 99% of the dollar volume of loans inside the Odessa & Midland MSA. The Lubbock branch was not assessed because of recent acquisition and lack of data. The tables below shows the geographic distribution for all areas except the Lubbock MSA.

| Lending in the Assessment Areas | | | | |
|--|------------------------------------|------------------|-------------------------------------|------------------|
| Abilene - MSA/ San Angelo - MSA/ & the surrounding ten county non-MSA areas | | | | |
| <i>Type of loan</i> | <i>Inside the Assessment Areas</i> | | <i>Outside the Assessment Areas</i> | |
| | # of loans | \$ dollar volume | # of loans | \$ dollar volume |
| Real estate | 57 | 1,762 | 3 | 54 |
| Consumer | 1,782 | 9,814 | 139 | 1,514 |
| Agriculture | 154 | 4,458 | 8 | 63 |
| Commercial | 210 | 8,498 | 9 | 117 |
| Totals | 2,203 | 24,532 | 159 | 1,748 |
| Percentage | 93% | 93% | 7% | 7% |

| Lending in the Assessment Area | | | | |
|---------------------------------------|-----------------------------------|------------------|------------------------------------|------------------|
| Odessa & Midland - MSA | | | | |
| <i>Type of loan</i> | <i>Inside the Assessment Area</i> | | <i>Outside the Assessment Area</i> | |
| | # of loans | \$ dollar volume | # of loans | \$ dollar volume |
| Real estate | 69 | 2,401 | 2 | 15 |
| Consumer | 803 | 7,997 | 77 | 978 |
| Agriculture | 2 | 5 | 0 | 0 |
| Commercial | 173 | 6,035 | 0 | 0 |
| Totals | 1,047 | 116,438 | 79 | 993 |
| Percentage | 93% | 99% | 7% | 1% |

Source: This information is based on data prepared by an external consultant engaged by the bank.

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

The distribution of loans to individuals of different income levels and to businesses of different sizes within the assessment areas is reasonable. The bank's Home Mortgage Disclosure Act (HMDA) Loan Application Registers for 1996 and the first quarter 1997 were reviewed to assess the institution's degree of real estate related lending to borrowers of different income levels. Also included was a sample of consumer loans from different assessment areas.

| LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS HMDA LOANS ORIGINATED IN 1996 AND 1ST QUARTER 1997 - (\$ in 000's) | | | | | | | | |
|---|------------------------------------|------|-------------------------------------|------|---------------------------------------|------|--------------------------------------|------|
| | <i>Low Income Families</i> | | <i>Moderate Income Families</i> | | <i>Middle Income Families</i> | | <i>Upper Income Families</i> | |
| Abilene - MSA Demographic Characteristics | 19.37% | | 18.40% | | 23.42% | | 38.80% | |
| | # Loans | % | # Loans | % | # Loans | % | # Loans | % |
| HMDA Loans | 0 | 0 | 8 | 21.6 | 6 | 16.2 | 23 | 62.2 |
| Odessa/ Midland-MSA | 22.18% | | 17.03% | | 20.49% | | 40.30% | |
| | # Loans | % | # Loans | % | # Loans | % | # Loans | % |
| HMDA Loans | 1 | 1.8 | 3 | 5.5 | 10 | 18.2 | 41 | 74.5 |
| Lubbock-MSA | 21.08% | | 17.79% | | 20.98% | | 40.16% | |
| | # Loans | % | # Loans | % | # Loans | % | # Loans | % |
| HMDA Loans | 2 | 2.7 | 8 | 11.0 | 6 | 8.2 | 57 | 78.1 |
| Non-MSA Counties | 21.71% | | 18.10% | | 20.91% | | 39.28% | |
| | # Loans | % | # Loans | % | # Loans | % | # Loans | % |
| HMDA Loans | 5 | 11.9 | 5 | 11.9 | 13 | 31.0 | 19 | 45.2 |

The above tables do not reflect San Angelo MSA as that branch made no HMDA loans during the period. The tables reflect lending to all income levels with a higher level to upper income families. Within the bank's performance context of limited real estate lending, the table reflects a reasonable distribution to all income levels. The degree of lending penetration to various income levels would change if consumer lending were considered.

Small business loans are a priority in helping to serve the communities where the bank has branches. The table below reflects lending to small business with predominantly less than \$250,000 in annual gross revenue and in amounts equal to or less than \$250,000.

| SAMPLE DISTRIBUTION OF SMALL BUSINESS LOANS | | | | | | | | |
|--|-----------|------|---------|------|-----------------|-----|---------|------|
| Within all Assessment Areas (last 12 months) | | | | | | | | |
| By Loan Size and Business Revenues | | | | | | | | |
| (\$ in 000's) | Loan Size | | | | Annual Revenues | | | |
| | # | % | \$(000) | % | # | % | \$(000) | % |
| < \$100 | 32 | 51% | 740 | 6% | 17 | 27% | 966 | 8% |
| \$100 to \$250 | 17 | 27% | 2,835 | 23% | 23 | 36% | 2,117 | 17% |
| > \$250 | 14 | 22% | 8,903 | 71% | 23 | 37% | 9,395 | 75% |
| Total | 63 | 100% | 12,478 | 100% | 63 | 100 | 12,478 | 100% |

The bank originates SBA 7a's, 504's, and low-documentation loans. The bank actively solicits SBA guaranteed loans in all assessment areas. However, most SBA loans originate from the Abilene, Odessa or Lubbock branches. Both the Odessa and Lubbock branches became certified SBA lenders when they were under independent bank charters. Certification dates for Odessa, Lubbock and Abilene were January 11, 1984; January 9, 1987; and April 24, 1995 respectively. The following table reflects the number and total dollars within the bank's portfolio of guaranteed SBA and Farmers Home Administration loans.

| Small Business Administration and Farmers Home Administration Loans | | |
|---|--------------------|----------|
| Within All Assessment Areas since January 1996 | | |
| Loan Product | Total Originations | |
| | # | \$(000) |
| SBA Loans - All Branches | 30 | \$ 4,791 |
| Farmers Home Administration Loans | 15 | \$1,276 |
| Total | 45 | \$6,067 |

Source: Prepared from data submitted by the bank as of June 30, 1997

● **Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the Abilene MSA, San Angelo MSA, Odessa/Midland MSA, and the non-MSA assessment areas. Data was not readily available for geographic distribution analysis on the newly acquired Lubbock branch. There is no evidence that any area has been arbitrarily excluded. An independent consultant performed the geographic distribution analysis of loans originated between 7/1/96 and 6/30/97 by census tract. The table below reflects the consultant's findings.

| GEOGRAPHIC DISTRIBUTION OF LOANS * ORIGINATED BETWEEN 7/1/96 - 6/30/97 | | | | | | | | | | |
|--|----------------------------------|----------|---------------------------------------|----------|-------------------------------------|----------|------------------------------------|----------|--------------|----------|
| | <i>Low Income Tracts</i> | | <i>Moderate Income Tracts</i> | | <i>Middle Income Tracts</i> | | <i>Upper Income Tracts</i> | | <i>Total</i> | |
| <i>Abilene/ San Angelo/ MSA's and non-MSA counties Demographic</i> | 5.9% | | 23.5% | | 54.1% | | 16.5% | | 100% | |
| <i>Count</i> | 5 | | 20 | | 46 | | 14 | | 85 | |
| Loan Types | # | % | # | % | # | % | # | % | # | % |
| Real Estate | 0 | 0 | 9 | 15.8 | 39 | 68.4 | 9 | 15.8 | 57 | 100 |
| Consumer | 32 | 1.8 | 493 | 27.7 | 1045 | 58.6 | 212 | 11.9 | 1782 | 100 |
| Agricultural | 2 | 1.3 | 15 | 9.7 | 123 | 79.9 | 14 | 9.1 | 154 | 100 |
| Commercial | 11 | 5.2 | 52 | 24.8 | 116 | 55.3 | 31 | 14.7 | 210 | 100 |
| <i>Odessa and Midland MSA Demographic</i> | 8.9% | | 25.0% | | 32.1% | | 34.0% | | 100% | |
| <i>Count</i> | 5 | | 14 | | 18 | | 19 | | 56 | |
| Loan Types | # | % | # | % | # | % | # | % | # | % |
| Real Estate | 9 | 13.0 | 5 | 7.2 | 35 | 50.7 | 20 | 28.9 | 69 | 100 |
| Consumer | 66 | 8.2 | 181 | 22.5 | 302 | 37.7 | 254 | 31.6 | 803 | 100 |
| Agricultural | 0 | 0 | 0 | 0 | 0 | 0.9 | 2 | 100 | 2 | 100 |
| Commercial | 64 | 37.0 | 34 | 19.7 | 36 | 20.8 | 39 | 22.5 | 173 | 100 |

Source: This information is based on data prepared by an external consultant engaged by the bank.

We tested the geographic distribution for the Odessa branch and found a positive correlation in the data presented by the consultant. FSB has a reasonable geographic distribution of loans.

- **Responses to Complaints**

FSB has made three purchase acquisitions and one merger since the last CRA public evaluations. No complaints concerning the bank's CRA performance have been received since the previous examination.