



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

JANUARY 22, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Herring National Bank of Vernon
Charter # 7010
4102 Wilbarger Street
Vernon, Texas 76384**

**Comptroller of the Currency
500 N. Akard, 1600 Lincoln Plaza
Dallas, Texas**

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 Herring National Bank of Vernon, Texas, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 22, 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.

Factors which indicate Herring National Bank of Vernon (HNB) commitment to principals of Community Reinvestment Act:

- HNB has the highest loan to deposit ratio of any bank within the assessment area at 64%.
- HNB has the highest level of loans for RE within the assessment area at 59%.
- HNB has the highest level of loans to agriculture within the assessment area at 59%.
- HNB has the highest level of loans to business's within the assessment area at 56%.
- HNB has a continuing participation in the affordable housing program which has assisted low and moderate income families obtain homes.
- HNB has supported the Business Development Corp of Vernon.
- 81% of the number and 70% of the amount of loans made in our sample were within the assessment areas.
- A substantial number of loans were made to small farms and businesses and to persons with low or moderate income.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>HERRING NATIONAL BANK OF VERNON</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 HAVE BEEN RECEIVED		

DESCRIPTION OF INSTITUTION

Herring National Bank is a \$103 million institution in the City of Vernon, Texas. The bank has one branch in Vernon and two branches located in Amarillo, Texas. The bank also has a trust department and a mortgage banking unit in the Westgate branch in Amarillo. The bank has five ATM facilities, with three being in Vernon and two in Amarillo. Loan production offices (LPO) are located in Wichita Falls and Bryan, Texas. The bank is a subsidiary of Herring Bancshares that is owned by Herring Bancorp. The holding company owns one other bank located in Clarendon, Texas. The last CRA examination was performed as of February 13, 1995, and resulted in a "Satisfactory record of meeting community credit needs."

Total loans comprise just above 52 percent of Total Assets. Table 1 illustrates the composition of Herring National Bank loan portfolio as of September 30, 1996.

Table 1

LOAN TYPE	LOAN BALANCE	% OF TOTAL LOANS
REAL ESTATE LOANS	30,786	52.5
COMMERCIAL LOANS	6,861	11.7
AGRICULTURAL LOANS	10,527	18.0
INDIVIDUAL LOANS	10,406	17.8
TOTAL LOANS	58,614	100.0

HNB's competition is primarily with two other financial institutions in the Vernon market and with six other banks and numerous credit unions in the Amarillo market. These institutions are able to provide similar banking and credit services to those offered at HNB.

There are no legal or other financial factors which prevent HNB from being able to meet the credit needs of the assessment area.

DESCRIPTION OF WILBARGER COUNTY

HNB's primary assessment area (AA) is defined as Wilbarger County, which is located 50 miles northwest of Wichita Falls, Texas. The largest volume of both deposits and loans originate from this area, and therefore was given the greatest consideration with regard to performance. The AA meets the regulatory requirements and does not arbitrarily exclude any low or moderate income geographies. The County is not in an MSA, but is a political subdivision. Vernon is the primary city in the County.

The population of the AA is approximately 15,000 consisting of seven block numbering areas (BNA's). Two BNA's in Wilbarger county are low to moderate income tracts, three are middle income tracts, and two are upper income tracts. Median Census Family Income is \$25,658, and the HUD Median Income for 1996 is \$28,900 (non-MSA).

The demographic information on the county indicates that persons with low- to moderate-income levels live throughout the county and in each BNA. Of 4,071 families in the AA, 782 (19.20%) are identified as having low income and 709 families (17.42%) have moderate income.

The primary credit needs of the community relate to the agricultural economy and small industrial production. Lending is primarily needed for agricultural production and to accommodate consumer needs for home purchase or home improvement, automobiles, or other consumer needs.

DESCRIPTION OF AMARILLO, TEXAS

HNB's assessment area (AA) for the Amarillo branch locations is defined as the City of Amarillo. The AA meets the regulatory requirements and does not arbitrarily exclude any low or moderate income geographies. The city of Amarillo is within the MSA # 320 and is the primary city within that area.

The population of the AA is approximately 165,000 consisting of sixty four census tracts(CT). Twenty four CT's in the city of Amarillo are low to moderate income tracts, twenty two are middle income tracts, and eighteen are upper income tracts. Median Census Family Income is \$30,688, and the HUD MSA Median Income for 1996 is \$36,400.

The demographic information of the city indicates that persons with low - to moderate-income levels live throughout the city and within each CT. Of 44,971 families in the AA, 2,357 (5.24%) are identified as having low income and 10,532 families (23.42%) have moderate income.

The primary credit needs of the community relate to the agricultural economy and industrial production. Lending is primarily needed for agricultural production, business working capital, and to accommodate consumer needs for home purchase or home improvement, automobiles, or other consumer needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

We reviewed the bank's loan-to-deposit ratio for each of the quarters since the last examination in 1995. The average ratio was 64% over the five quarters reviewed. The ratio as of September 30, 1996, was 64%. This level is considered reasonable for the size and location of the bank as well as the economy of the areas the bank operates in. We observed that the average ratio is somewhat higher than other two banks in Wilbarger County, and reasonable for the bank's size, area economic situation, and competitive environment.

HNB has the financial ability to meet the credit needs of its AA.

Lending in the Assessment Area

The Herring National Bank lends primarily within its AA. Our assessment is based on a review of loans originated in the third quarter of 1996. Table 2 and Table 3 reflect the distribution of loans within and outside each of the two AA's by loan type during this time period.

Table 2: SUMMARY Wilbarger County AA

LN TYPE	IN AA				OUTSIDE AA				TOTAL	
	#	%	\$	%	#	%	\$	%	#	\$
Real Estate	10	100	218.0	100	0	-	-	-	10	218.0
Commercial	9	100	121.0	100	0	-	-	-	9	121.0
Individual	51	89	164.0	78	6	11	46	22	57	210.0
Agricultural	9	82	252.0	92	2	18	24	8	11	276.0
TOTAL SAMPLE	79		755.0		8		70		87	825.0

ALL %'S ARE BASED ON LOAN SAMPLE OF LOANS ORIGINATED AFTER July 1, 1996 THROUGH SEPTEMBER 30, 1996.

Table 3: SUMMARY City of Amarillo AA

LN TYPE	IN AA				OUTSIDE AA				TOTAL	
	#	%	\$	%	#	%	\$	%	#	\$
Real Estate	5	31	155.0	19	11	69	669	81	16	824.0
Commercial	4	100	149.0	100	-	-	-	-	4	149.0
Individual	7	78	69.0	88	2	22	9	12	9	78.0
Agricultural	3	60	864.0	92	2	40	78	8	5	942.0
TOTAL SAMPLE	19		1,237.0		15		756		34	1,993.0

ALL %'S ARE BASED ON LOAN SAMPLE OF LOANS ORIGINATED AFTER July 1, 1996 THROUGH SEPTEMBER 30, 1996.

The above distribution is a very good level of lending within the AA, indicating that the bank is concerned primarily with local needs. The exception to this statement is the mortgage loans originated by the bank's Amarillo mortgage loan department. This business unit was established to originate loans over a selected but statewide area and to resell the loans in the

secondary market. Therefore, this unit would not be expected to reflect a high concentration of loans within the AA.

Excluding Amarillo mortgage loans, our review showed that the pattern of lending within the defined AA's were consistent for all other types of loans extended.

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

Our sample of consumer and Real Estate loans made in the Wilbarger County AA by income level are summarized in Table 4 and those in the Amarillo AA are summarized in Table 5.

Table 4 Wilbarger County AA

INCOME LEVEL	CONSUMER		REAL ESTATE	
	#	\$	#	\$
LOW	18	50	1	2
MODERATE	15	55	3	44
MIDDLE	13	36	2	41
UPPER	5	24	4	132

Based on our sample, we observed that the bank lends to persons with low and moderate income levels. This is especially apparent in the Wilbarger AA. We noted that 64% of the number of **consumer loans** and 64% of the volume were to low or moderate income borrowers. We also noted that 40% of the number of **real estate loans** and 21% of volume were to low or moderate income borrowers. Also, most business and farm loans reviewed in our sample were found to meet the definition of a small business or small farm borrower.

Table 3 City of Amarillo AA

INCOME LEVEL	CONSUMER		REAL ESTATE	
	#	\$	#	\$
LOW	2	19	1	37
MODERATE	1	24	3	67
MIDDLE	1	13	0	0
UPPER	3	13	1	32

We noted that 43% of the number of **consumer loans** and 62% of the volume were to low or moderate income borrowers. We also noted that 80% of the number of **real estate loans** and 76% of volume were to low or moderate income borrowers. Also, most business and farm loans reviewed in our sample were found to meet the definition of a small business or small farm borrower.

The above levels indicate that HNB satisfactorily lends to persons of all income levels throughout the AA's.

Geographic Distribution of Loans

The geographic distribution of loans is maintained internally for the Wilbarger County AA but not the Amarillo AA. Of the seven BNA's in Wilbarger County AA, two are designated as low to moderate income. A review of activity for the period July 1, 1996 to September 30, 1996 indicated that out of 344 loans made, 69 loans, or 20% were made within the low to moderate income areas. Loan volume totaled 207M out of a total of 1,245M, or 17% of the volume. We concluded that the bank is satisfactorily lending to all areas from our review detailed above of lending across various income levels.

A concurrent Fair Lending review was performed with this examination. We found that the principals of fair lending to be adequately considered in loan decisions and compliance with fair lending laws is very good. No violations of laws or regulations were noted.

Responses to Complaints

The Public File did not contain any complaints filed since the last examination.