



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 15, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Caldwell National Bank
Charter Number: 6607**

**129 West Buck Street
Post Office Box 149
Caldwell, Texas 77836**

**Office of the Comptroller of the Currency
Southwestern District
500 North 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 and to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the 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 CRA performance of **Caldwell National Bank (CNB), Caldwell, Texas** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of January 15, 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**.

- CNB's lending performance has been satisfactory in relationship to other banks in the county, the nature of the community, and known credit needs. The bank's loan-to-deposit (LTD) ratio has averaged 34% since the previous CRA examination in 1994. Peer LTD ratios have averaged 38%.
- CNB has provided several lending services that specifically benefit low- and moderate-income borrowers. These include low cost home improvement loans and lease/purchase arrangements for moderately priced bank owned homes. In addition to lending services, management has also been involved in several community development activities and services. Examples include: involvement in a government funded loan committee for small businesses; and the provision of financial services/expertise to local non-profit organizations and the Burleson County Industrial Foundation.
- A substantial majority of the bank's loans have been made within the bank's assessment area which is Burleson County.
- The bank has a good distribution of loans to borrowers and businesses of all income levels, including low- and moderate-income individuals, small businesses, and small farms.

The following pages further describe the bank's CRA performance.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Caldwell National Bank</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	Geographic analysis was not meaningful.		
Response to Complaints	Not Applicable, no complaints relating to the bank's CRA performance have been received.		

DESCRIPTION OF INSTITUTION

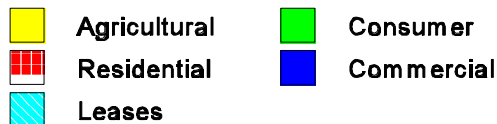
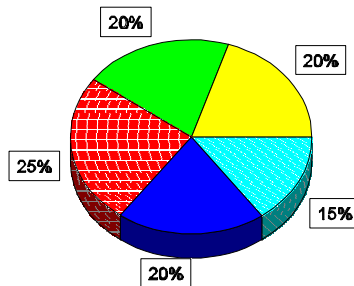
CNB is a \$55 million rural bank, with only one office in downtown Caldwell, Texas. Caldwell is located in central Texas, approximately 30 miles west of Bryan/College Station and 80 miles east of Austin. CNB has a drive-through facility and one automated teller machine (ATM), both located at the head office site. CNB offers deposit services for extended hours each day in its drive-through facility, including Saturdays. CNB is currently the only bank in town that offers deposit services on Saturdays. Extended hours for all bank services are available in the lobby on Fridays.

CNB is 100% owned by Caldwell Bancshares of Delaware and Caldwell Bancshares, Inc., a two-tiered one bank holding company. The majority of the holding company stock is controlled by one family.

CNB offers traditional loan and deposit products and its portfolio is fairly well diversified by loan type. The bank's primary business focus has been more consumer-oriented, particularly residential real estate, but it has also provided loans to meet various needs for agricultural purposes and small businesses. Due to the lack of loan demand, the bank has also purchased commercial lease contracts the past few years. The bank's loan distribution on September 30, 1997, is provided below.

Loan Distribution

As of 9/30/97



The local economy is stable. Economic support for the area is provided by light manufacturing, farming, ranching, oil and gas production. Caldwell is a rural trade center for the surrounding rural farms and ranches and is becoming a bedroom community for the Bryan/College Station area. Major employers in the community include the local school system, the city, the hospital, nursing homes, Nagel Manufacturing (hangers and shirt boxes), Allied Precision (metal fabrications for computer parts), Haliburton (oil service), Sherman Wire (wire products), and Wal-Mart.

CNB faces competition from several larger financial institutions in the community. In downtown Caldwell, there are branches of two other financial institutions. One branch is owned by a \$425 million Bryan/College Station savings bank, and the other is owned by \$100 million state bank in nearby Somerville, Texas. There is also a of a \$9 billion savings institution located in Caldwell.

No legal impediments or other factors, besides competition, hinder CNB's ability to provide credit. At the last CRA examination in August 1994, the bank's CRA rating was "Satisfactory." CNB has the ability to meet the various needs of its community, based on its good financial condition, a stable local economy, product offerings, and prior performance.

DESCRIPTION OF ASSESSMENT AREA

CNB has designated its assessment area as Burleson County, which includes 5 block numbering areas (BNAs)¹. The cities of Caldwell, Somerville, and Snook are the largest in the county. Caldwell is the county seat and the largest city with a population of 3,655. The 1990 census data indicates that the population for the entire county is 13,625.

The 1990 census data defines all the BNAs in the county as either upper- or middle-income areas. The BNA which includes the city of Caldwell is a middle-income area ².

Updated income information from the United States Department of Housing and Urban

¹ Block numbering areas (BNAs) are small statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county boundaries.

²BNAs are classified by the following income-level designations:

A low-income BNA has an average median family income (MFI) less than 50% of the 1990 state average non-metropolitan MFI.

A moderate-income BNA has an average MFI between 50% and 80% of the state average non-metropolitan MFI.

A middle-income BNA has an average MFI between 80% and 120% of the state average non-metropolitan MFI.

An upper-income BNA has an average MFI greater than 120% of the state average non-metropolitan MFI.

The 1990 Texas average non-metropolitan MFI was \$24,585.

Development (HUD) reveals that the 1997 Texas non-metropolitan median family income (MFI) is \$31,500.

The following information on Burleson County was obtained from the 1990 census data.

Assessment Area Demographics	
Population	13,625
Number of Families	3,764
Number of Housing Units	7,044
% Owner Occupied Units	57%
Mobile Homes or Trailers	27%
Median Housing Value	\$40,060
Population Age 65+ Years	17%
Households Receiving Social Security Income	36%
% Low-Income Families	23%
% Moderate-Income Families	17%
% Middle-Income Families	20%
% Upper-Income Families	40%

In order to gather more information on the nature of the community and potential lending opportunities in the assessment area, we reviewed information gathered from other regulatory agencies in their meetings with several small, local businesses. We also contacted representatives from the local housing authority, the industrial foundation, and a non-profit health service organization. Several needs were identified by these contacts: affordable housing, home improvement loans, financial educational programs, small business loans, and low cost deposit services. The community contacts indicated that most area banks, including CNB, have demonstrated a willingness to make most of these types of loans and services available. CNB does provide several products that specifically address these needs, particularly low cost home improvement loans. CNB also provides low cost deposit services to senior citizens, students, and to individuals without prior deposit relationships.

For further discussion on CNB's lending performance, please refer to the following paragraphs which summarize performance in each criteria specified in the CRA regulation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable, given its asset size, financial condition, competition, and the known credit needs of the assessment area. Since the last CRA examination, CNB's ratio has averaged 34%. The average ratio of CNB's primary competitors in Burleson County was 38% during this same time period.

Through its lending activities, CNB has helped to serve needs of low- and moderate-income individuals with a few special programs. CNB offers a low cost, government guaranteed, home improvement loan program (FHA Title-1). This program provides 100% financing and low closing costs for home improvement loans. Since the previous CRA examination, the bank has made 19 of these of loans in the county totaling \$126,000. Approximately 21% of these loans were to low- and moderate-income individuals. CNB is the only bank in the county offering FHA Title 1 loans. CNB has also provided lease/purchase financing for bank-owned residential property to low- and moderate-income individuals.

In addition to lending activities, CNB has been involved in a few community development activities and services that target small businesses, non-profit organizations, and help create jobs for low- and moderate-income individuals. Examples of these activities include: participation by a senior bank officer on a loan committee for the Brazos Valley Development Council (BVDC), which helps provide financing for small businesses. Senior bank officers have also provided financial services and advice for local non-profit organizations and the Burleson County Industrial Foundation. The Burleson County Industrial Foundation has been successful in bringing several businesses to Caldwell which have created jobs for low- and moderate-income individuals in the community.

Lending in the Assessment Area

A substantial majority of the bank's loans are within its assessment area. A computer generated report for all loans and leases made in 1997 was prepared during this examination. Based on management estimates, 73% of these loans are in Burleson County. We also selected a sample of 43 consumer, residential real estate loans and 20 small business, farm loans that have originated since the previous CRA examination. We found that approximately 85% of these loans were in Burleson County. This distribution of loans indicates that CNB is lending in its local community.

Geographic Distribution of Loans

As previously mentioned when describing the assessment area, all the BNAs in Burleson County

are considered middle- or upper-income areas. Consequently, analysis of loan distribution by BNA would not provide a meaningful analysis. However, based upon visual inspection of several homes funded by CNB and the review of addresses in our loan sample, CNB's loans do seem to be well disbursed throughout the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's loan portfolio reflects a good distribution among individuals of various income levels³ and to businesses of different sizes. From our sample of consumer and residential real estate loans in Burleson County, we identified the income level of borrowers and compared CNB's loan distribution by income level to the demographic characteristics of the community. As illustrated in the following table, CNB consistently lends to all applicants, regardless of their income category. The bank's performance is considered good in relation to the nature of its community, competition, and available lending opportunities.

Lending to Borrowers of Different Income Levels										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total	
Area Demographic Characteristics	23%		17%		20%		40%		100%	
	#	%	#	%	#	%	#	%	#	%
Consumer Loan Distribution by Borrower Income	9	24%	3	8%	8	21%	18	47%	38	100%

In our sample of commercial and agricultural loans, we reviewed gross revenues to help determine if CNB was lending to businesses and farms of different sizes. Only one of the businesses in our sample had gross revenues greater than \$1 million. The majority of the businesses and farms had

³ **Income level designations are as follows:**

A low-income borrower earns less than 50% of the updated 1997 MFI.

A moderate-income borrower earns between 50% and 80% of the updated 1997 MFI.

A middle-income borrower earns between 80% and 120% of the updated 1997 MFI.

An upper-income borrower earns more than 120% of the updated 1997 MFI.

gross revenues ranging from \$150,000 to \$500,000. This indicates that CNB is lending primarily to small businesses and small farms.

Response to Complaints

No complaints relating to CRA performance have been received by CNB or the OCC.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of the compliance and CRA examination of CNB. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.