



PUBLIC DISCLOSURE

June 29, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Port Lavaca
Charter Number 14821
P. O. Drawer 7
1101 Highway 35 South
Port Lavaca, Texas 77979**

Supervisory Office:

**Office of the Comptroller of the Currency
San Antonio South Field Office
9601 McAllister Freeway, Suite 200
San Antonio, Texas 78216-4605**

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 CRA performance of **First National Bank of Port Lavaca, Texas** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 29, 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”.

First National Bank of Port Lavaca is responsive to the credit needs of the community, including low and moderate-income individuals consistent with safe and sound banking practices.

- The bank’s loan-to-deposit ratio is reasonable when compared to other financial institutions in the assessment area and the strong level of competition.
- A substantial majority of the bank’s loans are extended to borrowers residing within its assessment area.
- The distribution of credit to individuals of different income levels, particularly consumer credit, and to businesses and farms of different sizes is reasonable.
- The bank has not received any public complaints concerning its CRA performance.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NATIONAL BANK OF PORT LAVACA</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		✓	
Lending in Assessment Area	✓		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		✓	
Geographic Distribution of Loans	Not Meaningful		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Port Lavaca (FNB) is an independently owned, retail oriented community bank. As of March 31, 1998, FNB had total assets of \$129 million and gross loans of \$27 million. All banking services are performed through their main office in Port Lavaca, Calhoun County, Texas. FNB offers various loan, deposit, and trust services to the community. The bank does not have any branch offices. Competition is strong with eight other financial institutions located in the bank's assessment area. One competitor is an affiliate bank of FNB located in Seadrift. Other competition is from five branches of other commercial banks, two credit unions, and two finance companies. The bank offers a wide range of credit products demonstrated by the types of loans extended. The loan portfolio mix is as follows:

- 1-4 family residential (39%)
- agricultural & farmland (9%)
- consumer (28%)
- non-farm/non-residential (9%)
- commercial & industrial (15%)

There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its assessment area. The last CRA examination for FNB is dated May 17, 1996, when the bank was rated satisfactory.

ASSESSMENT AREA DESCRIPTION

The bank has designated its assessment area as the entire county of Calhoun. The county is located on the Gulf Coast approximately 90 miles northeast of Corpus Christi. The 1990 census reflects that Calhoun County has 5,206 families that make up a population of 19,053. The county is considered a non-metropolitan area and comprises six Block Numbering Areas (BNAs). Three (50%) of the BNAs are considered middle-income, and two (33%) are upper-income. Income data is not available for the remaining BNA due to no permanent households. The City of Port Lavaca is the county seat as well as the largest city in the assessment area with a population of nearly 11,000 (58%). The statewide non-metropolitan 1997 median family income (MFI) is \$32,100, as determined by the U. S. Department of Housing and Urban Development (HUD).

Current economic conditions are stable. The petrochemical industry is the largest employer in the county and has been expanding. Agriculture, shrimping, and tourism also contribute to the employment base. The current unemployment rate is 4 percent, which closely reflects the statewide average.

Two community contacts were performed in conjunction with this examination. Both contacts represented Calhoun County and indicated that they were not aware of any significant unmet credit needs. The contacts stated that some additional housing in the low- and moderate-income range was probably needed for this area. They both stated that all of the local financial institutions, including FNB, were very active within the community and did a very good job in providing needed community services.

SAMPLING INFORMATION

Examiners used loan samples to assist in the evaluation of certain performance factors. Although the previous CRA examination was dated May 17, 1996, our loan sample consisted of recently funded loans (January 1, 1997 through June 29, 1998). Since the bank's loan portfolio is diversified among residential real estate, consumer, business, and agricultural loans, examiners evaluated these types of loans with respect to performance factors. One hundred loans were sampled consisting of 25 residential real estate, 50 consumer, 15 commercial, and 10 farm loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

▀ ***Loan to Deposit Ratio***

The bank's loan-to-deposit (LTD) ratio at December 31, 1997 and March 31, 1998 was 29 percent and 26 percent respectively. These ratios compare reasonably with the bank's previous twelve quarter average LTD ratio which is also 26 percent. The bank's ratio is above the 17 percent LTD ratio of the only other headquartered financial institution in the assessment area which is an affiliate bank. The other five banks in the assessment area are branches, and LTD ratios were not available. Therefore, we reviewed the LTD ratios of three other banks with similar characteristics in areas adjacent to FNB's assessment area. Those ratios ranged from 59 percent to 24 percent. However, it appeared that competition in these other areas is not as intense as it is in FNB's assessment area. The following table displays ratios for other similar banks used in our analysis.

Loan-to-Deposit Ratios of Similar Banks in and adjacent to FNB's Assessment Area December 31, 1997			
Bank Name	Location	Loan-to-Deposit Ratio	Total Assets
Within Assessment Area			
First National Bank	Port Lavaca	29.06%	\$129 million
Seaport Bank	Seadrift	17.53%	\$23 million
Similar banks in counties adjacent to Assessment Area			
The City State Bank	Palacios	58.77%	\$42 million
Citizens State Bank	Ganado	24.44%	\$39 million
First National Bank	Refugio	24.24%	\$60 million
AVERAGE	---	30.81%	---

FNB’s market share of deposits in Calhoun County is 23 percent¹. This share ranks second behind International Bank of Commerce at 59 percent. The remaining 18 percent is divided among the other five institutions. Based on factors such as the LTD ratios at other area banks, strong competition, and the assessment areas credit needs, the loan-to-deposit ratio is considered reasonable.

➤ ***Lending in The Assessment Area***

Based on our loan sample, a substantial majority of the loans were within the bank’s assessment area. The sample showed that 86 percent of the number of loans and 92 percent of the dollar amount were made within the assessment area. A majority of the loans made outside the assessment area were in adjacent areas that do not have nearby banking facilities. The table below shows loans made in and outside the assessment area by type.

Loans in Assessment Area				
Loan Type	Number	Percent	\$ Amount	Percent
Residential	23 of 25	93%	742 of 807	92%
Consumer	39 of 50	78%	98 of 128	77%
Commercial	14 of 15	93%	169 of 178	95%
Agricultural	10 of 10	100%	248 of 248	100%
TOTAL	86 of 100	86%	1,257 of 1,361	92%

Note: Dollar amounts are stated in thousands of dollars

➤ ***Lending to Borrowers of Different Incomes and To Businesses of Different Sizes***

Our loan sample showed that the distribution of borrowers reflects a reasonable penetration among individuals of different income levels and to businesses and farms of different sizes. The distribution of total loans generally reflects the income characteristics of the assessment area. Demographic data shows that 34 percent of the families in the assessment area are low- and moderate-income. It is particularly noted that a substantial majority of our consumer loan sample (74 percent of the number) were loans made to low- and moderate-income families. Twenty four percent of the number of residential loans in our sample were to low- and moderate-income families. Although the bank’s level of residential lending to lower income families is less than it is to middle- and upper-income families, it is noted that the median housing value in

¹Deposit share is the percent of total funds on deposit at FDIC insured institutions located in Calhoun County. It does not include deposits at local credit unions.

Calhoun County is \$44,877. This limits the availability of affordable housing for lower income. Eighty-eight percent of the number of loans in our commercial loan sample were loans made to small businesses and farms with annual revenues of less than \$250 thousand. A comparison of our loan sample to demographic data of the assessment area is detailed in the following tables.

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
Area Demographic Characteristics	19.8%		14.7%		17.2%		48.3%		100%	
Count	1,033		767		892		2,514		5,206	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
Loan Type										
Consumer	19	38%	18	36%	9	18%	4	8%	50	100%
Residential	1	4%	5	20%	5	20%	14	56%	25	100%
TOTAL	20	27%	23	31%	14	18%	18	24%	75	100%
<i>By Dollar</i>	\$	%	\$	%	\$	%	\$	%	\$	%
Loan Type										
Consumer	22	16%	71	53%	20	15%	22	16%	135	100%
Residential	26	3%	161	20%	89	11%	531	66%	807	100%
TOTAL	48	5%	232	25%	109	12%	553	58%	942	100%

Note: Dollar amounts are stated in thousands of dollars.

Lending to Businesses and Farms of Different Sizes

Revenue Ranges	<\$100		\$100 to \$250		\$250 to \$500		\$500 to \$1,000		>1,000	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
Loan Type										
Commercial	12	80%	1	6.7%	1	6.7%	0	0%	1	6.6%
Agricultural	8	80%	1	10%	1	10%	0	0%	0	0%
TOTAL	20	80%	2	8%	2	8%	0	0%	1	4%

➡ ***Geographic Distribution of Loans***

An analysis of this area was not performed as it would not have been meaningful. There are no low- or moderate-income BNAs within FNB's assessment area. However, from our general observation of the loan sample, the bank's distribution of lending throughout its entire area appears reasonable.

➡ ***Response to Complaints***

FNB has not received any complaints or public comments regarding their CRA performance since the previous examination.

➡ ***Other***

An analysis of loan denials for 1997 and 1998 shows denials were supported and consistent with safe and sound banking practices. Based on the loans sampled during our examination, we did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations.

This document does not purport to describe all information that may be pertinent to FNB's activities in and service to its community. The reader is encouraged to contact the bank for any further information wanted and/or to review the bank's Public File. The bank's address is listed on the front page of this document. The telephone number is (512) 552-6726.