



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 6, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Franklin National Bank
Charter Number: 17055**

**Post Office Box 540
Interstate Highway 30 & Highway 37
Mt. Vernon, Texas 75457**

**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 **Franklin National Bank** prepared by **Office of the Comptroller of the Currency** the institution's supervisory agency, as of November 6, 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.

Franklin National Bank has a satisfactory record of meeting community credit needs. This assessment is based upon the following factors:

- ▶ The bank's average loan-to-deposit ratio is reasonable at 66.93% when compared to other banks within its assessment area.
- ▶ A majority of the bank's loans are extended to customers within its assessment area.
- ▶ The distribution of credit to borrowers of different income levels and businesses of different sizes is reasonable.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FRANKLIN 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	Analysis would not be meaningful.		
Response to Complaints	No written complaints have been received since our prior CRA Examination.		

DESCRIPTION OF INSTITUTION:

Franklin National Bank is a \$41 million financial institution located on the southeast corner of the intersection formed by Interstate Highway 30 and State Highway 37 in Mt. Vernon, Texas. Franklin National Bank is fully owned by Franklin Bankshares, Inc., a one bank holding company. In addition to the main office, the bank has five branches located in Winnsboro, Quitman, Yantis, Emory, and Como, Texas.

The institution is retail oriented and offers a full range of retail and commercial deposit and loan products. Franklin National Bank is very active in government guaranteed programs for both small businesses and agricultural loans. As of June 30, 1997, loans totaled \$25 million and were distributed as follows: 30% were commercial and commercial real estate; 27% were agricultural related; 26% were 1- 4 family residential mortgages; and 17% were consumer related. There are no legal or other impediments which limit the bank's ability to help meet the credit needs of the community. The previous CRA Examination was conducted as of May 4, 1995.

DESCRIPTION OF ASSESSMENT AREA:

The Board and management have designated four contiguous counties, Franklin, Hopkins, Wood, and Rains, as their assessment area. This territory is not part of a metropolitan statistical area. The population within this area totals 72,730 persons according to the 1990 Census Bureau data. Approximately 20% of the families are low income, 17% are moderate income, 20% are middle income, and 43% are upper income. The geography within this designation consists of 21 block numbering areas (BNAs). Twenty of these BNAs are designated as middle-income, with the remaining BNA being upper-income. The 1997 Department of Housing and Urban Development (HUD) median family income for this area is \$31,500. A large segment of the local economy is agricultural based in dairy, beef cattle, and broiler production. Major employers within the assessment area include the local school districts, county governments, health agencies, Texas Utilities, and Lowes Distribution Center.

As part of our evaluation, we contacted a local government official. This official stated in his/her opinion, the primary community credit needs were mortgage loans and consumer loans. The official also indicated that the local financial institutions are supportive of the community and have taken positive steps toward meeting the identified credit needs. The official was not aware of any formal studies performed which would identify community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO:

Franklin National Bank has a reasonable loan-to-deposit ratio given the bank's size, financial condition, and assessment area credit needs. The quarterly loan to deposit ratio has averaged 66.93% since the prior CRA Examination dated May 5, 1995, and ranged from a low of 60.93% to a high of 72.78%. In comparison, the average-loan-to-deposit ratio for all banks included in the above assessment area has been 55.88% over that same period. Average loan-to-deposit ratios for the individual banks included in this custom peer group ranged from 25.90% to 71.67%.

LENDING IN ASSESSMENT AREA:

A majority of the bank's loans are extended within the designated assessment area. We reviewed a sample of 25 1- 4 family residential mortgages, 25 consumer loans, 25 commercial loans, and 25 agricultural loans which were originated during 1996 and year-to-date 1997. Approximately 78% of the number of loans and 69% of the dollar amount of loans in our sample were originated within the assessment area. This indicates a satisfactory level of lending within the bank's assessment area. The following table reflects the distribution of loans by loan type.

Analysis of Lending Inside and Outside Assessment Area								
Loan Type:	Inside				Outside			
	#	%	\$ (000)	%	#	%	\$ (000)	%
Mortgage	21	84%	958	74%	4	16%	332	26%
Consumer	19	76%	119	79%	6	24%	31	21%
Commercial	17	68%	1,316	54%	8	32%	1,134	46%
Agricultural	21	84%	1,923	82%	4	16%	423	18%
Totals	78	78%	4,316	69%	22	22%	1,920	31%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES:

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. The bank’s loan distribution generally approximates the income characteristics of the assessment area. In addition, the distribution of business loans also reflects a reasonable penetration among businesses of different sizes. Based on our review, 88% of the business loans we sampled which were originated within the bank’s assessment area were to small businesses with gross annual revenues of less than one million dollars. Further, 100% of the agricultural loans were to small farm operations with gross annual revenues of less than five hundred thousand dollars. The following table details the results of our analysis.

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	20%		17%		20%		43%		100%	
Loan Types:	#	%	#	%	#	%	#	%	#	%
Mortgage	2	10%	1	5%	2	10%	16	75%	21	100%
Consumer	4	21%	4	21%	5	26%	6	32%	19	100%
Revenue Ranges	Less than \$100,000		\$100,000-\$500,000		\$500,000-\$1,000,000		Over \$1,000,000			
Commercial	8	47%	7	41%	0	0%	2	12%	17	100%
Revenue Ranges	Less than \$500,000		Over \$500,000		Total					
Agricultural	21	100%	0	0%	21	100%				

GEOGRAPHIC DISTRIBUTION OF LOANS:

A geographic analysis of lending activity within the bank's assessment area was not performed as it would not be meaningful. There are no low- or moderate-income geographies located within the assessment area.

RESPONSE TO COMPLAINTS:

Management has not received any written complaints related to CRA performance since the prior CRA Examination. A Fair Lending Examination was performed in conjunction with this examination. Based on the samples reviewed, no discriminatory practices were noted. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.