



**COMMUNITY REINVESTMENT ACT**  
**PERFORMANCE EVALUATION**  
**PUBLIC DISCLOSURE**

**VAN HORN STATE BANK**

**[199463]**

**P. O BOX 729**  
**VAN HORN, TEXAS 79855**

**As of**  
**October 12, 1999**

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.

**Federal Reserve Bank of Dallas**

P. O. Box 655906, Dallas, Texas 75265-5906

# COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

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# CRA PERFORMANCE ASSESSMENT

## 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 Van Horn State Bank, Van Horn, Texas, prepared by the Federal Reserve Bank of Dallas, Dallas, Texas, the institution's supervisory agency, as of October 12, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated Outstanding.

Van Horn State Bank's performance in originating loans to meet the credit needs of all segments of its community merits an outstanding rating for the period covered by this evaluation. The factors supporting this rating include:

- A large and increasing level of lending, reflected by its 85.3% June 30, 1999, loan-to-deposit ratio and 71.7% quarterly average ratio since the previous CRA evaluation;
- A substantial majority of commercial and residential real estate loans originated inside the bank's assessment area, including 95% of the commercial and residential real estate loans made by the bank between July 1, 1998 – June 30, 1999;
- An excellent penetration of loans among businesses of different sizes and individuals of different income levels, as demonstrated by 41% of the residential loans to low- and moderate-income borrowers and more than half of the commercial loans to very small businesses; and,
- A reasonable dispersion of loans throughout its assessment area.

## DESCRIPTION OF INSTITUTION

Van Horn State Bank (VHSB), chartered in 1909 and the only financial institution in Culberson County, Texas, operates one office at 100 East Broadway, Van Horn, Texas 79855. VHSB is a subsidiary of Western Bancshares, Inc., Van Horn, a two-bank holding company that also owns First Bank of West Texas, Coahoma, Texas. VHSB offers commercial, SBA, home mortgage, home improvement, home equity, construction, direct automobile and signature loans. Deposit product offerings include certificates of deposit and checking, money market, savings and NOW accounts. The bank operates an on-site automatic teller machine (ATM) and a motor bank facility and provides electronic funds transfer services such as direct deposit, ACH, pre-authorized withdrawal of funds, ATM transfers, and point of sale terminal transfers. VHSB received an outstanding rating at the last CRA examination conducted as of October 7, 1996.

At June 30, 1999, VHSB had total assets of approximately \$20.8 million, total loans of \$14.4 million, and shareholders' equity of \$2 million. A review of the bank's loan portfolio for the period ending June 30, 1999, reflects the following product mix:

<u>LOAN TYPE</u>	<u>JUNE 30, 1999 (IN THOUSANDS)</u>	<u>PERCENT OF GROSS LOANS</u>
<b>Real Estate</b>		
<b>Residential</b>	\$ 3,506	24.3%
Commercial	2,389	16.6%
Agriculture	159	1.1%
Total Real Estate	6,054	42.0%
<u>Consumer - All Other</u>	2,558	17.7%
Commercial and Industrial	5,021	34.8%
<b><u>Agricultural</u></b>	575	4.0%
<b><u>State and Political</u></b>	186	1.3%
<b><u>Other</u></b>	36	0.2%
<b>Gross Loans</b>	\$14,430	100.0%

As shown above, 42% of the bank's lending is in real estate loans, with residential real estate comprising the largest portion. The residential real estate loan portfolio has increased almost 54% since June 30, 1998. A factor in this growth is the bank's entry into the home equity lending market following the Texas Constitutional amendment permitting home equity lending beginning January 1, 1998. According to bank management, many Culberson County homeowners have substantial equity in their homes and have taken advantage of this change in the law to make needed home improvements and finance college education, among other purposes.

Commercial and Industrial loans, at 34.8%, is the next largest segment, followed by consumer lending.

The commercial loan portfolio includes \$4.7 million in SBA loans extended since the prior CRA evaluation. While total assets have increased 7.3% since June 30, 1998, gross loans grew 22.7% during the period. In addition, total deposits declined 4.6%, resulting in a substantial increase in the bank's loan-to-deposit ratio, from 67.8% at June 30, 1998 to 85.3% at June 30, 1999. Net loans represent 69.4% of total assets. Predominant lending products are commercial loans, SBA loans, and home mortgage and home equity loans.

Overall, the bank's ability to meet various community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, demographic and economic factors present in the assessment area, or the lending opportunities

available in the institution's assessment area. Contacts in the community indicate the credit needs of the community appear to be adequately met.

### **DESCRIPTION OF CULBERSON COUNTY**

Van Horn State Bank (VHSB) is located in Culberson County, in the Upper Rio Grande Area of Texas. This area consists of the metropolitan El Paso County, as well as several sparsely populated mountainous counties east of El Paso, which have the largest land area in the state. Culberson County's total land area is 3,813 square miles at altitudes ranging from 3,021 – 8,749 feet.

Van Horn, Texas, a town with a population of approximately 3,000, is located about 120 miles southeast of El Paso, Texas, along Interstate 10. Van Horn is the county seat and primary population center of the county. Because Interstate 10 is a major route for the southern portion of the U.S., the local economy benefits from travelers on the interstate via motels, truck stops, restaurants, and variety shops. Talc and marble mining operations also contribute to the local economy, as well as tourism and agriculture. The Guadalupe Mountains National Park, containing Texas' highest mountain, is located in the northwest corner of the county.

Culberson County consists of two Block Numbering Areas (BNAs): one moderate-income BNA encompassing the town of Van Horn and one upper-income BNA consisting of sparsely populated ranchland. Ninety percent of the population lives in the moderate-income BNA. The U.S. Census Bureau estimated the 1998 population of Culberson County at 3,050. According to this estimate, the county has lost 357 residents or 10.5% of its population since 1990. City and County officials contacted during this evaluation question any reduction in population, however. There are 1,111 households and 897 families in the assessment area, approximately 52% of which are low- and moderate-income according to the 1990 census. The following table presents selected demographics for the assessment area, compared to the averages for non-metropolitan areas of Texas:

<b>DEMOGRAPHIC INFORMATION</b>	<b>CULBERSON COUNTY</b>	<b>STATE NON-METROPOLITAN AREAS</b>
Population	\$ 3,407	\$2,820,852
Number of Families	897	759,277
Percent Low Income Families	27.0	23.2
Percent Moderate Income	24.9	16.6
Percent Middle Income	22.6	19.2
Percent Upper Income	25.5	41.0
Percent of Families Below Poverty Level	26.2	18.4
Number of Housing Units	1,286	1,269,927
Percent Owner-Occupied	54.4	58.4
Percent of Housing Rented	29.3	21.5
Median Housing Value	\$23,696	\$39,125

As noted, the assessment area has a higher percentage of below poverty and low- and moderate-income families than the statewide non-metropolitan area. In addition, Hispanics comprise 71% of the assessment area population, compared to an average of 32% for non-metropolitan areas of Texas.

Culberson County's median housing value of \$23,696 is considerably lower than the statewide figure of \$39,125. The median age of the assessment area housing stock is 38 years. As attested to by community contacts, there is a shortage of rental housing in Culberson County. Almost 68% of housing are single-family units, 24% mobile homes, and 6% 2-4 family units.

According to the Texas Workforce Commission, the unemployment rate for the state was 4.5% as of September 1999. This is the lowest rate seen in recent years. Culberson County's 1999 unemployment rate has fluctuated from a low of 5.8% in April to 11.4% in September 1999.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit ratio is exceptional. As noted earlier, the 23% increase in gross loans between June 30, 1998 and June 30, 1999 is indicative of the bank's commitment to meeting the credit needs of its community. VHSB's June 30, 1999 net loan-to-deposit ratio was 85.3%, and the quarterly average ratio since the previous examination has increased to 71.7% from 64.2% at the October 7, 1996 CRA evaluation. UBPR information indicates national peer banks posted a 62.9% loan-to-deposit ratio at June 30, 1999.

Since there are no competing financial institutions in the immediate assessment area, the loan-to-deposit (LTD) ratios for similarly situated financial institutions in the contiguous counties, Hudspeth and Jeff Davis, as well as Presidio County, are presented in the following table to facilitate the analysis. The banks were selected based on their proximity, relative size, loan portfolio mix and similar assessment areas and are presented alphabetically by county.

BANK	COUNTY	TOTAL ASSETS JUNE 30, 1999	LTD RATIO JUNE 30, 1999	QUARTERLY AVG. LTD RATIO
Van Horn State Bank Van Horn, Texas	Culberson	\$20,804,000	85.28%	71.69%
Bank of Sierra Blanca Sierra Blanca, Texas	Hudspeth	14,252,000	85.66	79.10
Fort Davis State Bank Fort Davis, Texas	Jeff Davis	31,362,000	58.35	56.37
Marfa National Bank Marfa, Texas	Presidio	\$30,669,000	45.33%	36.11%

As illustrated, only the Bank of Sierra Blanca, located 35 miles west of Van Horn, has a comparably high loan-to-deposit ratio. This analysis shows that Van Horn State Bank is meeting and exceeding the performance of similarly situated financial institutions in this category.

## LENDING IN ASSESSMENT AREA

The bank's performance in this category demonstrates an excellent response to the credit needs of its assessment area (AA). A substantial majority of its commercial and residential loans were extended to borrowers and businesses residing or operating in Culberson County. As shown in the table below, overall, 95.5% of the commercial and residential real estate loans originated between July 1, 1998 – June 30, 1999 were inside the bank's assessment area.

<i><b>DISTRIBUTION OF COMMERCIAL AND RESIDENTIAL REAL ESTATE LOANS</b></i>				
<i><b>LOCATION</b></i>	<i><b>NUMBER</b></i>	<i><b>PERCENT OF NUMBER</b></i>	<i><b>DOLLAR AMOUNT</b></i>	<i><b>PERCENT OF DOLLAR VOLUME</b></i>
<i>Within AA</i>	<i>105</i>	<i>95.5%</i>	<i>\$4,327,974</i>	<i>92.4%</i>
<i>Outside AA</i>	<i>5</i>	<i>4.5</i>	<i>358,000</i>	<i>7.6</i>
<i>Total</i>	<i>110</i>	<i>100.0%</i>	<i>\$4,685,974</i>	<i>100.0%</i>

The analysis included the universe of commercial loans under \$1 million, or 52 commercial loans to 26 different businesses totaling \$3,339,462, and 58 loans secured by residential real estate with a total dollar volume of \$1,346,512. Forty-nine of the commercial loans or 94.2% on a number basis and \$3,058,462 or 91.6% on a dollar basis were inside the assessment area. Three loans totaling \$281,000 were outside the bank's assessment area.

Fifty-six of the residential real estate loans or 96.6% on a number basis and \$1,269,512 or 94.3% on a dollar basis were inside the assessment area. Only two loans totaling \$77,000 were made outside Culberson County.

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

The bank's performance in this category reflects an excellent penetration among businesses of different sizes and individuals of different income levels and is considered outstanding. Information on the gross annual revenues of the businesses was available for 35 of the 49 small business loans inside the assessment area. As indicated on the following chart, all of these businesses earned less than \$200,000 in gross annual revenues, and 27 of the loans or 54% of the total were made to firms with reported revenues less than \$100,000. Two of the businesses were start-up firms and the largest reported revenues were \$188,000.

<b>Distribution of Commercial Loans by Gross Annual Revenues and Loan Size</b>						
<b>GROSS ANNUAL REVENUES (\$000s)</b>	<b>LOAN AMOUNT</b>					
	<b>LESS THAN \$10,000</b>	<b>\$10,000 - &lt;\$50,000</b>	<b>\$50,000 - &lt; \$100,000</b>	<b>\$100,000 AND UP</b>	<b>TOTAL</b>	
Less than \$50	8	8	4	3	23	47%
\$50 – less than \$100	2	1	0	1	4	8
\$100 - \$200	2	4	2	0	8	16
Revenues N/A	6	5	1	2	14	29
<b>Total</b>	<b>18</b>	<b>18</b>	<b>7</b>	<b>6</b>	<b>49</b>	<b>100%</b>
		<b>37%</b>		<b>12%</b>		

An analysis by loan size reveals the substantial majority of loans were made for under \$100,000. Forty-three or 88% were under \$100,000. Further, 18 or 37% were less than \$10,000.

The analysis of lending to borrowers of different income levels is performed using the median family income for nonmetropolitan statewide areas as adjusted annually by the U.S. Department of Housing and Urban Development. The following table indicates the income level ranges for 1998 and 1999:

<i>INCOME LEVEL</i>	<i>1998</i>	<i>1999</i>
<i>Low income</i>	<i>\$0 &lt; \$16,050</i>	<i>\$0 &lt; \$16,950</i>
<i>Moderate income</i>	<i>\$16,050 &lt; \$25,680</i>	<i>\$16,950 &lt; \$27,120</i>
<i>Middle income</i>	<i>\$25,680 &lt; \$38,520</i>	<i>\$27,120 &lt; \$40,680</i>
<i>Upper income</i>	<i>\$38,520 and up</i>	<i>\$40,680 and up</i>
<i>Median Family Income</i>	<i>\$32,100</i>	<i>\$33,900</i>

The following chart illustrates the distribution of the residential real estate loans by income of the borrowers, and includes the percentage of area families within each income level:

<i>DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY MEDIAN FAMILY INCOME LEVEL</i>					
	<i>LOW</i>	<i>MODERATE</i>	<i>MIDDLE</i>	<i>UPPER</i>	<i>INCOME N/A</i>
<i>Number of Loans</i>	<i>10</i>	<i>13</i>	<i>13</i>	<i>17</i>	<i>3</i>
<i>% of Number</i>	<i>17.9%</i>	<i>23.2%</i>	<i>23.2%</i>	<i>30.4%</i>	<i>5.3%</i>
<i>Dollar Volume</i>	<i>\$224,500</i>	<i>\$269,362</i>	<i>\$174,240</i>	<i>\$494,375</i>	<i>\$107,035</i>
<i>% of Dollar Volume</i>	<i>17.7%</i>	<i>21.2%</i>	<i>13.7%</i>	<i>38.9%</i>	<i>8.4%</i>
<i>Percent of Families</i>	<i>27.0%</i>	<i>24.9%</i>	<i>22.6%</i>	<i>25.5%</i>	<i>N/A</i>

The distribution of the bank's residential real estate lending reflects an excellent penetration among individuals of different income levels. Overall, 41% of the loans were originated to low- and moderate-income borrowers. With virtually all of the low-income families in Culberson County living below the poverty level, the bank's level of lending to these very low income residents is commendable. The distribution of loans to moderate-income individuals is proportional to the percentage of moderate-income families in the assessment area. Given their greater borrowing capacity, it is not unexpected that the highest dollar volume of loans was originated to upper-income borrowers. Information on the income of the borrowers was not available for three loans totaling \$107,035.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The bank's performance in this category meets the standards for satisfactory performance. Since the vast majority of the bank's business and the assessment area population is centered in the moderate-income BNA encompassing the town of Van Horn, a high percentage of loans in the moderate-income BNA is expected.



Only one loan out of the 105 loans in Culberson County was located in the upper-income BNA outside Van Horn. This distribution is consistent with the dispersal of the population within the assessment area.

### **RESPONSE TO COMPLAINTS**

The bank has not received any CRA-related complaints since the previous evaluation.

### **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS (ECOA, FHA OR HMDA)**

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the concurrent Consumer Affairs Examination.

