

PUBLIC DISCLOSURE

March 11, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First State Bank
DSBB # 11480840 / RSSD # 296054**

**Ann and North Streets
Brackettville, Texas 78832**

Federal Reserve Bank of Dallas

**2200 North Pearl Street
P.O. Box 655906
Dallas, Texas 75265-5906**

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 **The First State Bank, Brackettville, Texas**, prepared by the **Federal Reserve Bank of Dallas**, the institution's supervisory agency, as of March 11, 1996. 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 **Satisfactory**.

The bank's rating is primarily supported by the loan distribution of its consumer loan portfolio which exhibits an excellent dispersion throughout the assessment area by borrower income. Approximately 64 percent of the loans contained in a six month sample were made to low- or moderate-income borrowers with gross incomes of less than \$20,000.

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

<u>THE FIRST STATE BANK</u>			
PERFORMANCE LEVELS			
SMALL INSTITUTION ASSESSMENT CRITERIA	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	Unable to conduct a meaningful analysis.		
Response to Complaints	No Complaints were received since the last examination.		

DESCRIPTION OF INSTITUTION

The First State Bank, Brackettville, Texas, is owned by Westex Bancorp, a multi-bank holding company located in Del Rio, Texas. The bank's office is located in downtown Brackettville (population 1,732), in Kinney County, Texas, about 120 west of San Antonio. It is the only financial institution in Kinney County.

As of December 31, 1995, the bank reported total assets of approximately \$12.8 million and net loans represented 33.08 percent of deposits. The bank's primary lending focus continues to be real estate related which accounted for 60 percent of the loan portfolio. The First State Bank also does a significant amount of consumer lending which accounted for 29 percent of the loan portfolio.

The bank's ability to meet various community credit needs has not been hampered by its capacity to lend. However, the lending opportunities available in the institution's assessment area have been adversely affected by the local economic conditions within Kinney County. Despite the city's efforts to train residents, most job opportunities require relocation. Growth in the area's population is attributed to retirees relocating to neighboring Fort Clark Springs, a planned resort and retirement community.

The asset distribution by loan type is as follows as of December 31, 1995:

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 0	0.00
Residential 1-4	2,345	59.53
Multifamily	0	0.00
Commercial	31	0.79
Agricultural	34	0.86
Total Real Estate	2,410	61.18
Consumer:		
Open-end credit	0	0.00
All other	1,125	28.56
Commercial and Industrial	338	8.58
Agricultural	52	1.32
State and Political Obligations	14	0.36
Other	0	0.00
Total	\$3,939	100.00%

DESCRIPTION OF ASSESSMENT AREA

The bank has defined its assessment area as Kinney County, Texas. Kinney County is located in the southwestern portion of the state, near the border with Mexico, along the Rio Grande River. The county's primary industries are ranching and tourism. According to the 1990 United States Census, the unemployment rate of 6.8 percent tracked closely with that reported by the state, 7.0 percent. Several community contacts interviewed during the examination indicated that local job training programs have been successful in placing residents, but, due to limited employment opportunities within Brackettville, the newly trained residents are forced to relocate to other parts of the state for employment.

Brackettville and Fort Clark Springs, a planned resort and retirement community, have a combined population of approximately 2,700. According to the 1990 United States Census, Kinney County has a population of 3,119. The ethnicity of the county is 50 percent Hispanic, 46 percent White, 2 percent Black, and 2 percent other.

The median family income for Kinney County is \$18,893, which is significantly lower than the state's median family income of \$31,553, and the state's nonmetropolitan area average of \$24,586. For CRA purposes, income classifications for a nonmetropolitan area such as Kinney County are based on the latter figure. (Refer to the Income Category chart in Distribution of Credit Within the Assessment Area section for definitions of income categories.) The assessment area consists of a single Block Numbering Area which is designated as moderate-income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The institution's average loan-to-deposit ratio is satisfactory in light of its performance context, which includes the institution's 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, and the lending opportunities available in the institution's assessment area.

The bank's average loan-to-deposit ratio since the last consumer affairs examination is 29.09 percent. As of December 31, 1995, the bank's net loans represented 33.08 percent of total deposits. The national peer ratio for the same period was 59.81 percent. To better understand the bank's performance in relation to its more immediate peer group, a loan-to-deposit ratio analysis was made of banks located in counties contiguous to Kinney. As of December 31, 1995, the seven peer banks located in Edwards, Maverick, Uvalde, and Val Verde counties had loan-to-deposit ratios ranging from 21.92 percent to 49.57 percent with the average being 34.54 percent.

Comparison of Credit Extended Inside and Outside of the Assessment Area

A review of sampled loans originated indicated a majority of the loans extended were located inside the assessment area and the institution exceeds standards in this performance criteria. Examiner analysis was comprised of a review of 36 home purchase loans and 73 consumer loans. The consumer loan review sampled six months of activity and the mortgage loan review included all loans approved since the previous examination which was conducted as of March 14, 1994. Of the loans sampled, 91 percent were found to be within the bank's assessment area.

Distribution of Credit Within the Assessment Area (By Revenue/Income)

The consumer loan analysis consisted of analyzing borrower income as a percentage of the Texas nonmetropolitan median family income. A breakdown by income range for each category is detailed below:

TEXAS NONMETROPOLITAN MEDIAN FAMILY INCOME \$24,586		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0 - 50%	\$12,293
MODERATE-INCOME-	50 - 80%	\$19,669
MIDDLE-INCOME	80 - 120%	\$29,503
UPPER-INCOME	120% and over	over \$29,503

An analysis of the loan distribution among the various income levels is detailed on the following charts and revealed an adequate distribution of loans.

CONSUMER LOAN SAMPLE BY INCOME LEVEL				
NUMBER OF LOANS		INCOME CATEGORY	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
33	46	Low-income	\$ 43	19
13	18	Mod-income	24	11
14	19	Mid-income	43	19
12	17	Upp-income	111	51
72	100%	Total*	\$223	100%

* Total excludes one loan for which income information was not available.

The consumer loans that were sampled above encompassed borrowers of all income levels. Further, 46 percent were made to low-income borrowers with income of \$12,293 or less, and an additional 18 percent were extended to moderate-income individuals.

MORTGAGE LOAN SAMPLE BY INCOME LEVEL				
NUMBER OF LOANS		INCOME CATEGORY	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
0	0	Low-income	\$ 0	0
4	11	Mod-income	115	10
2	6	Mid-income	31	3
29	83	Upp-income	976	87
35	100%	Total*	\$1,122	100%

* Total excludes one loan for which income information was not available.

The mortgage distribution revealed that home purchase loans were predominantly (83 percent) extended to upper-income individuals earning in excess of \$29,503. Community contacts interviewed during the examination indicated that there is a need for low- and moderate-income housing; however, down payment requirements, limited availability of housing stock, and minimal housing stock turnover are all barriers to affordable housing. In an effort to mitigate these obstacles, the bank has worked with local housing groups in an attempt to bring in private grant money which could be utilized for housing or down payment assistance programs. To date, these efforts have been unsuccessful. Contacts also indicated that Federal Community Development Block Grant money has not been made available by the city or the county for housing-related programs.

Distribution of Credit Within the Assessment Area (By Geography)

Given that the bank's Assessment Area consists of one Block Numbering Area and that a majority of the sampled loan files did not include street addresses, it was not possible to conduct a meaningful analysis of the bank's distribution of loans in its assessment area among low-, moderate-, middle-, and upper-income geographies.

Review of Complaints

The institution has not received any written complaints about its CRA performance since the last examination.

Discrimination

No substantive violations involving illegal discrimination or discouragement were found.