

# **PUBLIC DISCLOSURE**

March 7, 2005

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Colorado Valley Bank  
RSSD #935858

143 N. Main Street  
La Grange, Texas 78945

Federal Reserve Bank of Dallas

2200 North Pearl Street  
Dallas, Texas 75201

**NOTE:** This document is an evaluation of this 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. 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.

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

The performance of Colorado Valley Bank in originating loans to meet the credit needs of all segments of its community is rated Satisfactory for the period covered by this evaluation. Factors supporting this rating include:

- A majority of commercial, agricultural and residential real estate loans originated inside the bank's assessment areas, including 91% of the number and dollar volume of loans reviewed;
- A reasonable penetration of loans among individuals of different income levels and farms of different sizes, as demonstrated by 21% of the residential mortgages being made to low- and moderate-income borrowers. In addition, 49% of the commercial and agricultural loans were made to entities with gross revenues under \$50 thousand, 97% were to entities with revenue under \$1 million;
- A loan-to-deposit ratio of 105.8% as of December 31, 2004, with a quarterly average of 76.6% since the previous CRA evaluation.

**DESCRIPTION OF INSTITUTION**

Colorado Valley Bank (CVB) is a full service bank headquartered in La Grange, Fayette County, Texas. The bank is a wholly owned subsidiary of La Grange Bancshares, La Grange, Texas. CVB offers a full range of deposit services and loan products, including residential mortgage, home improvement, consumer, commercial, and agricultural loans. The following table depicts CVB's locations:

<b>BRANCH</b>	<b>ADDRESS</b>	<b>COUNTY</b>
Main	143 N. Main Street La Grange, Texas 78945	Fayette
Drive-Thru	500 West Travis Street La Grange, Texas 78945	Fayette
Weimar	107 E. Main Street Weimar, Texas 78962	Colorado

CVB sold its branch that was located in Columbus, Colorado County, Texas in May 2004.

As of December 31, 2004, CVB had total assets of \$32.5 million, gross loans of \$25.7 million, and shareholders equity of \$3.2 million. The following table reflects the loan portfolio mix:

LOAN TYPE	12/30/2004 (IN THOUSANDS)	PERCENT OF GROSS LOANS
Real Estate		
Residential	\$10,801	42.0
Commercial	3,924	15.3
Agriculture	3,134	12.2
Interim Construction	427	1.7
Multi-Family	93	0.4
Total Real Estate	\$18,379	71.6
Consumer	5,853	22.8
Commercial and Industrial	1,098	4.3
Agricultural	346	1.3
Other	9	0.0
Gross Loans	\$25,685	100.0

As reflected in the table above, residential real estate and consumer lending are the two most important product lines by dollar amount. The bank also originates a significant dollar volume of agriculture and commercial real estate loans.

There are no legal or financial impediments that would inhibit the bank's ability to meet the credit needs of its community, consistent with its business strategy, size, resources, and local economic climate. Colorado Valley Bank, La Grange, Texas received a Satisfactory CRA rating at its last performance evaluation as of February 26, 2001, by the Federal Reserve Bank of Dallas.

## DESCRIPTION OF FAYETTE AND COLORADO COUNTIES

CVB's assessment area ("AA") consists of the contiguous counties of Fayette and Colorado. These counties are located in the south central portion of Texas, and are not a part of a metropolitan statistical area. There are no low- or moderate-income census tracts in Fayette or Colorado Counties. These counties are located between the large metropolitan cities of Houston, Austin, and San Antonio.

La Grange is the largest town and the county seat of Fayette County. The town also provides the citizens with governmental, commercial, medical, civic, and cultural facilities. Fayette County is also noted for being the number one beef producer in Texas. Columbus is the county seat for Colorado County.

As of June 30, 2004, there were 10 financial institutions with 13 branches insured by the FDIC in Colorado County. CVB ranks 7th in market share. The leading institutions are Hill Bank and Trust Company (20.3%), Columbus State Bank (19.6%) and Hibernia National Bank (19.4%). In Fayette County there were 9 FDIC insured financial institutions with 15 branches. State Bank

(31%), National Bank & Trust (14.8%), and Round Top State Bank (14.7%) hold the majority of the market share. CVB ranks last with only 3.4% of the market share.

<b>SUMMARY OF DEPOSITS (AS OF June 30, 2004)</b>				
<b>COUNTY</b>	<b># OF INSURED INSTITUTIONS</b>	<b># OF BRANCHES</b>	<b>TOTAL DEPOSITS \$(000)</b>	<b>CVB'S % MARKET SHARE</b>
Colorado	10	13	893,126	2.4
Fayette	9	15	525,936	3.4

Demographic and economic information also impact the bank's performance context and are discussed below. Information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of the Census, 2000; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet; Texas A&M (Texas Cooperative Extension); and the Texas Workforce Commission.

The following chart provides an overview of selected demographic information about the AA:

<b>COLORADO VALLEY BANK, LA GRANGE, TEXAS</b>		
<b>Characteristics of the Assessment Area</b>		
<b>Tract Summary<sup>1</sup></b>		
	<b>Fayette</b>	<b>Colorado</b>
Number of Low-Income Tracts	0	0
Number of Moderate-Income Tracts	0	0
Number of Middle-Income Tracts	3	2
Number of Upper-Income Tracts	4	3
<b>Total Number of Tracts</b>	<b>7</b>	<b>5</b>
<b>Income Summary<sup>2</sup></b>		
<b>Median Family Income, 2004 HUD Estimated</b>	<b>\$42,000</b>	<b>\$42,000</b>
Total Families	6,142	5,385
Percent Low-Income Families	15.1	19.3
Percent Moderate-Income Families	14.8	14.8
Percent Middle-Income Families	20.1	18.2
Percent Upper-Income Families	50.1	47.7
Percent Below Poverty Level	8.1	12.3
<b>Unemployment Summary<sup>3</sup></b>		
Labor Force	10,871	8,642
<b>Percent Unemployment (County)</b>	<b>2.5</b>	<b>4.4</b>
<b>Miscellaneous Information<sup>4</sup></b>		
<b>Total Population</b>	<b>21,804</b>	<b>20,390</b>
Total Housing Units – 2000	11,113	9,431
Percentage Owner-Occupied Units to Total Units	61.3	62.1
Percentage Rental Units to Total Units	17.1	18.9
Percentage Vacant Units to Total Units	21.5	19.0
Total Businesses	1,166	870
Total Farms	135	121

*Income Characteristics* - As noted in the preceding table, there are no low- or moderate-income census tracts in Fayette and Colorado Counties. However, 15.1% of the families are considered low-income and 14.8% are moderate-income in Fayette County. Additionally, 8.1% of the families have income below the poverty level. Colorado County has 19.3% low-income and 14.8% moderate-income families, while 12.3% are below the poverty level.

<sup>1</sup> Source: U.S. Census Bureau, 2000

<sup>2</sup> Source: U.S. Dept. of Housing and Urban Development, 2000; U.S. Census Bureau, 2000

<sup>3</sup> Source: Texas Workforce Commission, 2004 Annual Averages

<sup>4</sup> Source: U.S. Census Bureau, 2000; Dun & Bradstreet, 2004

*Housing Characteristics* - There are 11,113 housing units in Fayette County, with a median age of 35 years, and 9,431 in Colorado County, with a median age of 33 years. Ninety-seven percent of Fayette County's housing units are single-family. In Colorado County, 96% of the units are single family. Owner-occupied units comprise 62% of the two counties' housing stock. In 2000, the average sales price of a single-family home in Fayette County was \$71,600 and was \$59,200 in Colorado County. An affordability ratio<sup>5</sup> has been developed that allows for an evaluation of housing prices in relation to household income. The ratio is helpful in comparing housing costs for different areas. An area with a higher ratio generally has more affordable housing than an area with a lower ratio. The affordability ratios for Fayette and Colorado Counties are 45% and 53%, respectively. These ratios indicate that it may be difficult for low- and moderate- income families to afford purchasing a home. In addition, community contacts indicated that the average sales price of a home in La Grange has risen to approximately \$115 thousand.

*Labor, Employment and Economic Characteristics* – The local economy is diversified and based largely on education, agriculture, healthcare, and tourism. Major employers in the assessment area include Utex Industries, Lower Colorado River Authority Fayette Power Plant, Double B Foods, Colorado/Fayette Medical Center, and local independent school districts. Fayette County's annual average unemployment rate at 2.5% and Colorado County at 4.4% are significantly below the state average of 5.9%.

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<sup>5</sup> The affordability ratio is calculated by dividing the median household income by the median household value for a given area or group of geographies.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance was evaluated using the CRA small bank performance standards. A sample of home mortgage loans and commercial and agricultural loans made in 2004 were used to conduct this evaluation. Small Bank CRA performance standards evaluate:

- average loan-to-deposit ratio since the last CRA evaluation;
- the overall level of lending within the assessment area;
- the bank's lending to borrowers of different income levels and businesses and farms of different sizes;
- the bank's geographic distribution of loans within its assessment area; and,
- the bank's response to any written complaints since the last examination.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment area. The bank's performance is rated Satisfactory.

## LOAN-TO-DEPOSIT RATIO

CVB's net loan-to-deposit (LTD) ratio is considered excellent given the bank's size and financial condition, the credit needs of the AA, and the competitive local banking environment. As of December 31, 2004, CVB's LTD ratio was 106% and the quarterly average since the previous evaluation was 77%. The high LTD ratio is attributable to the retention of \$1 million in loans when the Columbus branch and its deposits were sold.

To better understand the bank's performance in relation to its AA, a comparison of similarly situated banks was performed. These banks were chosen for analysis based on their proximity, similar size and structure. As indicated in the following chart, CVB maintained a higher LTD ratio than similar banks in the area.

BANK	COUNTY	ASSETS (\$000s) 12/31/2004	LTD RATIO 12/31/2004	QUARTERLY AVG. LTD RATIO*
Colorado Valley Bank La Grange, Texas	Fayette	32,468	105.8	76.6
Carmine State Bank Carmine, Texas	Fayette	32,850	48.0	48.8
Fayetteville Bank Fayetteville, Texas	Fayette	67,762	69.3	74.5
First National Bank Eagle Lake, TX	Colorado	71,616	48.2	54.7

\*Quarterly average loan-to-deposit is based on 16 quarters.



**LENDING IN ASSESSMENT AREA**

The bank’s lending performance was evaluated based upon a sample of 33 home purchase and 33 commercial/agricultural loans originated during 2004 and totaling \$4.9 million.

This analysis revealed that a majority of the bank’s lending takes place in the AA. As summarized in the chart below, 91% of both the number and dollar volume of loans were originated to borrowers living or operating inside the AA of the bank. Overall lending to borrowers inside the AA meets expectations for an excellent performance.

ASSESSMENT AREA CONCENTRATION								
LOAN TYPE	INSIDE ASSESSMENT AREA				OUTSIDE ASSESSMENT AREA			
	#	%	\$000’S	% OF \$	#	%	\$000’S	% OF \$
Home Purchase	29	87.9	3,189	88.6	4	12.1	412	11.4
Commercial / Agricultural	31	93.9	1,246	97.0	2	6.1	38	3.0
TOTAL	60	90.9	4,435	90.8	6	9.1	450	9.2

The remaining analyses were conducted using those loans originated inside the AA.

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

The distribution of lending based on income and revenue levels of the borrowers reflects a reasonable penetration among individuals of different income levels and businesses and farms of different sizes. The income level of Lafayette and Columbus County borrowers were compared to the statewide non-metropolitan Median Family Income (“MFI”). The Texas non-metropolitan MFI increased from \$41,200 in 2003 to \$42,000 in 2004. The following table depicts the income level ranges for 2004:

Income Level	2004 Non-metropolitan Area
Median Income	\$42,000
Low-income	\$0 < \$21,000
Moderate-income	\$21,000 < \$33,600
Middle-income	\$33,600 < \$50,400
Upper-income	\$50,400 and up

The following table reflects the distribution of the commercial and agricultural loans in the AA by gross annual revenues and loan amount:

<b>DISTRIBUTION OF COMMERCIAL / AG LOANS BY GROSS ANNUAL REVENUES AND LOAN SIZE</b>										
<b>GROSS ANNUAL REVENUES (\$000s)</b>	<b>LOAN AMOUNT</b>								<b>TOTAL</b>	
	<b>LESS THAN \$25,000</b>	<b>\$25,000 - &lt;\$50,000</b>		<b>\$50,000 – &lt; \$100,000</b>		<b>\$100,000 AND UP</b>				
Less than \$50	11	1	1	2	15	48.4%				
\$50 – less than \$100	6	1	3	0	10	32.3%				
\$100 and up	2	0	1	2	5	16.1%				
Revenues N/A	1	0	0	0	1	3.2%				
<b>Total</b>	<b>20</b>	<b>64.5%</b>	<b>2</b>	<b>6.5%</b>	<b>5</b>	<b>16.1%</b>	<b>4</b>	<b>12.9%</b>	<b>31</b>	<b>100%</b>

Colorado Valley Bank made 97% of its commercial and agricultural loans to entities with revenues of \$1 million or less. This compares favorably to the AA demographics as 89% of the farms and businesses have revenues of one million or less. Also, 65% of the loans were for loan amounts less than \$25,000. This performance demonstrates the bank’s commitment to making small dollar loans to businesses and farms within its AA.

The following table presents the distribution by borrower income of the home purchase loans inside the AA:

<b>DISTRIBUTION OF HOME PURCHASE LOANS BY MEDIAN FAMILY INCOME LEVEL</b>					
	<b>LOW</b>	<b>MODERATE</b>	<b>MIDDLE</b>	<b>UPPER</b>	<b>INCOME N/A</b>
Number of Loans	3	3	10	13	0
% of Number	10.3%	10.3%	34.5%	44.9%	0%
Dollar Volume (000s)	\$126	\$102	\$681	\$2,280	\$0
% of Dollar Volume	4.0%	3.2%	21.3%	71.5%	0%
Percent of Families	17.05%	14.78%	19.22%	48.95%	N/A

Over 20% of Colorado Valley’s home purchase loans were made to low- and moderate-income borrowers. This reflects the high cost of housing in the area, as evidenced by affordability ratios of 45% and 53% for Fayette and Colorado Counties, respectively.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The focus of this assessment factor is to determine how the bank meets the credit needs throughout all census tracts in the AA, including low- and moderate-income areas. As the AA consists of only middle- and upper-income geographies, an analysis under this criterion is not meaningful.

## **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.

## GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small, relatively permanent statistical subdivision of a county or statistically equivalent entity, delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with U.S. Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions **at the time they are established**, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

**Community development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Metropolitan Statistical Area (MSA):** A core area, as defined by the United States Office of Management and Budget, with at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. MSAs are defined in terms of whole counties.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.