



COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION  
PUBLIC DISCLOSURE

Lorena State Bank

818250/11-48-4828

P. O. Box 577  
Lorena, Texas, 76655

As of  
March 31, 1997

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 Community Reinvestment Act (CRA) performance of **Lorena State Bank, Lorena, Texas**, prepared by **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of March 31, 1997. 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 major factor contributing to the bank's rating was the distribution of consumer loans to low- and moderate-income borrowers. Analysis revealed that 66% of the consumer loans sampled were made to borrowers with incomes less than 80% of the median family income for the bank's assessment area. Further analysis revealed an adequate level of lending inside the bank's assessment area. Of the motor vehicle, small business, and small farm loans sampled, 72% were originated inside the bank's assessment area.

### DESCRIPTION OF INSTITUTION

Lorena State Bank is a wholly-owned subsidiary of Central Financial Bank Corporation, Inc., a four-tiered bank holding company based in Lorena, Texas. The bank operates one office, located on U.S. Interstate 35 in Lorena, Texas. At the last CRA examination conducted as of November 27, 1995, the bank received a satisfactory rating.

As of December 31, 1996, the bank reported total assets of \$25.6 million. Net loans and leases represented 72.1% of total deposits. As indicated in the following chart, the bank's primary lending focus continues to be 1-4 family residential mortgages, which accounted for 32.1% of the bank's total loan portfolio. Combined with all other real estate lending, real estate loans represented 61.2% of the bank's total loan portfolio.

<b>LOAN TYPE</b>	<b>DOLLAR AMOUNT (THOUSANDS)</b>	<b>PERCENT OF TOTAL LOANS</b>
Real Estate:		
Construction	\$ 2,795	16.43%
Residential 1-4	5,454	32.06
Commercial	1,065	6.26
Agricultural	1,089	6.41
Total Real Estate	10,403	61.16
Consumer:		
All other	2,132	12.53
Commercial and Industrial	2,777	16.32
Agricultural	1,619	9.52
State and Political	80	0.47
Totals	\$17,011	100.00%

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.

**DESCRIPTION OF McLENNAN COUNTY**

The bank considers its assessment area to be McLennan County, which had a population of 189,123 according to the 1990 United States Census (Census). Lorena, Texas, is located in the eastern foothills of the Texas Hill Country. Situated approximately 15 miles southwest of Waco, Texas, and 25 miles north of Temple, Texas, Lorena encompasses an area of three square miles and has a population of 1,342 according to the 1990 Census. The city is considered to be a bedroom community, with residents commuting to work in Waco and Temple, Texas, as well as other, larger surrounding cities in Central Texas. The major employer is the Lorena Independent School District. In recent years an effort has been made to improve the retail industry of Lorena, Texas, where a revitalization of the downtown area has occurred. Several stores specializing in antiques, decorations, lighting and interior design are now located in the central area of the town.

The 1990 Census estimated that there are over 70,000 households in McLennan County. According to the 1990 Census, approximately 41% of the households earn less than 80% of the Median Family Income (MFI) and are designated low- and moderate-income. The county consists of 53 census tracts. Five of the tracts have been designated low-income census tracts and eleven have been designated moderate-income census tracts. All of the low- and moderate- income census tracts inside the bank's assessment area are located within the city of Waco, Texas and its suburban areas. The Department of Housing and Urban Development (HUD) updates MFI on an annual-basis and reports the 1996 Waco Metropolitan Statistical Area (Waco MSA) MFI for rural McLennan County at \$34,500. For CRA purposes, borrower income information will be compared to the Waco MSA MFI figure.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **LOAN TO DEPOSIT RATIO**

The institution's quarterly average loan-to-deposit (LTD) ratio is considered reasonable based upon its performance context, which includes the institution's capacity to lend, the capacity of other similarly situated institutions to lend, existing demographic and economic factors, and the lending opportunities available in the institution's assessment area.

Lorena State Bank's (LSB) quarterly average LTD ratio since the last examination equaled 68.3%. As of December 31, 1996, the bank's LTD ratio was 70.8%. The national peer LTD ratio as of year-end 1996 was 65.4% and the quarterly average LTD ratio since the last examination equaled 64.5%. Due to the fact that there were a limited number of independent/community banks with no branch offices operating inside the bank's assessment area, LSB was compared with five banks that have a full service branch operating in the assessment area and are similar in asset size. LSB's quarterly average LTD ratio was considered reasonable in comparison to the 5 similarly-situated bank's quarterly average LTD ratios, which ranged from 38.1% to 76.7% with an average of 59.3%.

### **LENDING IN ASSESSMENT AREA**

The bank met the standards for satisfactory performance, as a majority of the 82 loans sampled were made inside the bank's assessment area. Overall, 72% of the loans on a number-basis and 52% on a dollar-basis were originated inside the bank's assessment area. The low percentage of the dollar amount of loans originated in McLennan County is attributed to the relatively large dollar amount of several agricultural loans originated outside the bank's assessment area. Further analysis revealed that the agricultural loans originated outside the assessment area were originated in the northern portion of the county that borders the assessment area to the south.

Since the current assessment area designated by the bank is consistent with the requirements of the CRA, the bank's lending activity within McLennan County was utilized for the remaining analysis contained in this report. Of the 49 motor vehicle loans sampled, 38 or 78% were made inside the bank's assessment area. The 38 loans totaled \$228 thousand and represented 67% of the total dollar volume of motor vehicle loans sampled. Of the 16 small business loans sampled, 14 or 87% were made inside McLennan County. The 14 small business loans totaled \$481 thousand and represented 89% of the total dollar volume of small business loans. Of the 17 small farm loans sampled, 7 or 41% were made inside McLennan County. The 7 small farm loans totaled \$172 thousand and represented 21% of the total dollar volume of small farm loans sampled.

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

The bank's distribution of loans in its assessment area by gross revenue, borrower income, and dollar amount is considered satisfactory. Examiner analysis consisted of an in-depth review of the 38 motor vehicle loans, 14 small business loans, and 7 small farm loans extended during the six month period from August 1, 1996, through January 31, 1997, to borrowers residing in McLennan County.

Analysis of the loan distribution among the various business and farm revenue levels indicates a reasonable distribution of these loans. As shown on the following table, 81% percent of the 21 small business and farm loans sampled were made to borrowers with revenues of \$250 thousand or less, while 19.1% were made to borrowers with revenues greater than \$250 thousand and less than \$1 million.

<b>1996 SMALL BUSINESS/FARM LOAN SAMPLE *</b>		
<b>GROSS REVENUES OF BUSINESS/FARM (THOUSANDS)</b>	<b>NUMBER OF LOANS BY REVENUE OF APPLICANT</b>	<b>PERCENT OF TOTAL LOANS</b>
<b>\$0 - 100</b>	14	67
<b>\$100 - 250</b>	3	14
<b>\$250 - 1,000</b>	4	19
<b>TOTALS *</b>	21	100%

\* Totals and percentages exclude 12 small business and farm loans made outside the bank's assessment area.

Motor vehicle loans using borrower income information were analyzed as a percentage of the Waco MSA MFI. A breakdown by income range for each category is detailed below:

<b>WACO METROPOLITAN STATISTICAL AREA                      MEDIAN FAMILY INCOME                      \$34,500</b>		
<b>INCOME CATEGORY</b>	<b>INCOME RANGE AS A PERCENT OF MEDIAN</b>	<b>UPPER LIMIT OF RANGE</b>
<b>LOW-INCOME</b>	0 - 50%	\$17,250
<b>MODERATE-INCOME</b>	0 - 80%	\$27,600
<b>MIDDLE-INCOME</b>	80 - 120%	\$41,400
<b>UPPER-INCOME</b>	120% and Over	Over \$41,400

An analysis of the loan distribution of 33 motor vehicle loans among the various income levels as shown on the following table indicates a reasonable dispersion of motor vehicle loans among the various income levels. The bank's distribution of motor vehicle loans on a number-basis for low- and moderate-income borrowers of 67% compares favorably to the 39% combined level of low- and moderate-income borrowers residing in McLennan County based upon the 1990 Census figures.

<b>MOTOR VEHICLE LOAN SAMPLE BY INCOME LEVEL *</b>				
<b>NUMBER OF LOANS</b>		<b>INCOME CATEGORY</b>	<b>DOLLAR AMOUNT</b>	
<b>NUMBER OF LOANS BY INCOME OF APPLICANT</b>	<b>PERCENT OF TOTAL LOANS</b>		<b>DOLLAR AMOUNT OF LOANS BY INCOME OF APPLICANT (THOUSANDS)</b>	<b>PERCENT OF TOTAL LOANS</b>
13	40	Low-income	\$50	25
9	27	Mod-income	86	43
4	12	Mid-income	27	14
7	21	Upp-income	37	18
33	100%	Totals	\$200	100%

\* Totals and percentages exclude 5 loans for which income data was not available and 11 loans outside the bank's assessment area.

## GEOGRAPHIC DISTRIBUTION OF LOANS

A geographic breakdown for the 53 census tracts comprising McLennan County by census tract income category based upon 1990 Census data is presented on the following table:

INCOME CATEGORY	NUMBER OF CENSUS TRACTS	PERCENT OF TOTAL CENSUS TRACTS
LOW-INCOME	5	10
MOD-INCOME	11	21
MID-INCOME	23	43
UPP-INCOME	14	26
<b>TOTAL TRACTS</b>	<b>53</b>	<b>100%</b>

Analysis of the distribution of loans that were originated inside the bank's assessment area revealed a reasonable dispersion of loans by the various census tract income categories. Review of the bank's assessment area revealed that the four census tracts surrounding the bank, which include the entire city of Lorena, Texas, are all upper-income tracts. Therefore, it can be expected that a large portion of the loans originated by the bank would be located in these census tracts. The analysis revealed that 2% of the loans were originated inside low-income census tracts, 9% were made inside moderate-income tracts, 20% were originated in middle-income tracts, and 69% were made inside upper-income tracts.

Loan Sample by Census Tract *						
Income Category	Small Business Loans		Small Farm Loans		Motor Vehicle Loans	
	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type
LOW-INCOME	1	7	0	0	0	0
MOD-INCOME	2	14	1	14	2	5
MID-INCOME	4	29	2	29	6	16
UPP-INCOME	7	50	4	57	30	79
<b>TOTAL *</b>	<b>14</b>	<b>100%</b>	<b>7</b>	<b>100%</b>	<b>38</b>	<b>100%</b>

\* Total and percentages exclude 11 motor vehicle loans, 10 small farm loans, and 2 small business loans made outside the bank's assessment area.



## **RESPONSE TO COMPLAINTS**

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

## **COMPLIANCE WITH ANTIDISCRIMINATION LAWS (ECOA, FHA, OR HMDA)**

No violations involving illegal discrimination or discouragement were noted during the examination.