

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

First Bank & Trust of Clarendon

Name of Institution

Clarendon

City

Texas

State

Mary A. Clouthier

Examiner-in-Charge

123 South Kearney

Street

Donley

County

79226

Zip Code

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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 **First Bank & Trust of Clarendon, Clarendon, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of July 8, 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 major factor contributing to the bank's rating was the distribution throughout the assessment area by borrower income and business revenue, which was further supported by the bank's willingness to make small dollar loans. An analysis of the motor vehicle loan sample revealed that 60% of the loans were made to low- and moderate-income borrowers and 64% of the loans were made for amounts less than \$5,000. Also, a sample review of loans made in March and April of 1996 found that 70% of the motor vehicle loans were secured by cars or trucks over 5 years old, further evidencing the bank's willingness to meet credit needs within its community. An analysis of the agricultural loan sample revealed that 85% of the loans were made to farm operations with gross revenues of \$250 thousand or less and 86% of the loans were made for amounts less than \$25,000.

The following table indicates the performance level of First Bank & Trust of Clarendon, Clarendon, Texas. with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST BANK & TRUST OF CLARENDON CLARENDON, TEXAS 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		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The First Bank & Trust of Clarendon (Clarendon) was acquired by a two-tiered bank holding company on November 7, 1994. The top tier bank holding company, Herring Bancorp, Inc., Vernon, Texas, owns 100% of Herring Bancshares, Inc., Wilmington, Delaware, which in turn owns 100% of both Clarendon and Herring National Bank, Vernon, Texas. The bank's only office is located at 129 South Kearney and offers an inside lobby automated teller machine and convenient banking hours. At the last CRA examination conducted as of October 31, 1994, Clarendon received an overall satisfactory rating.

As of March 31, 1996, the bank reported total assets of \$33 million. Net loans and leases represented 34.5% of total deposits. As indicated in the following chart, the bank's primary lending focus continues to be agriculturally-based. Agricultural and farm-secured real estate loans comprised 46.5% of the bank's loan portfolio as of March 31, 1996, in comparison to 53.2% as of June 30, 1994.

LOAN TYPE	DOLLAR AMOUNT	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 1,101	10.08
Residential 1-4	905	8.29
Commercial	522	4.78
Agricultural	772	7.07
Total Real Estate	3,300	30.22
Consumer:		
All other	1,217	11.14
Commercial and Industrial	2,087	19.10
Agricultural	4,309	39.45
Other	10	0.09
Total	\$10,923	100.00%

Clarendon's and other similarly-situated banks respective abilities to meet various community credit needs have not been hampered by demographic factors present in the assessment area. However, bank management indicated that due to the relatively small legal lending limits of both Clarendon and its primary competition in the assessment area for deposits and loans, Donley County State Bank, Clarendon, Texas (DCSB), large agricultural borrowers have been forced to seek loans from larger regional financial institutions in Amarillo and Lubbock, Texas. Furthermore, the bank's ability to meet various community credit needs and lending opportunities within the assessment area have been hampered by weak agricultural loan demand. This has occurred due to severe drought conditions over the past three years, which has devastated local crops and increased feed prices for cattle

ranchers already suffering from low beef prices. Bank management estimated that 80% of the local economy is directly or indirectly related to the agricultural sector, with the bank's agricultural loan portfolio being down from normal levels by approximately \$1 million as of June 30, 1996. They also indicated that a minimal level of commercial and industrial activity has reduced lending opportunities for the bank.

DESCRIPTION OF DONLEY COUNTY

The bank has identified its assessment area as Donley County. The city of Clarendon, Texas, serves as the county seat of Donley County and is located approximately 65 miles southeast of Amarillo, Texas. The 1990 United States Census (Census) estimated the population for Donley County at 3,696, with approximately one-half of this total residing in Clarendon, Texas. As noted earlier, the agricultural sector drives the local economy. Other important sectors of the economy are government, education, wholesale, and retail trade.

The 1990 median family income (MFI) for Donley County was \$22,137. All three of the block numbering areas (BNAs) in the assessment area are middle income BNAs, although 44.1% of the county's population are considered low- or moderate-income families and approximately 17% of the population lives below the poverty level based upon Census data. The BNA encompassing the city of Clarendon, Texas, had a MFI which equaled 89.1% of Donley County's MFI, while the mostly rural southeastern and northwestern BNAs had MFIs that equaled 96.2% and 80.9%, respectively, of Donley County's MFI. The Department of Housing and Urban Development updates MFI on an annual-basis and reports the 1995 Texas nonmetropolitan MFI at \$28,700. For CRA purposes, borrower income information for a nonmetropolitan area such as Donley County are based upon the latter figure.

Community contacts interviewed during the examination indicated that the local economy is considered stable, but little or no growth was noted in terms of population, employment, and commercial or retail development. While both community contacts felt that the two local banks were actively involved in the community, had sufficient lending capacity and capability, and were aggressively marketing a comprehensive selection of loan products to the community, they indicated that small business loans were needed in the short-term to help grow and diversify the economy as well as provide new and better products and services. In the long-term, affordable housing loans for low- and moderate-income individuals will be needed to replace diminishing levels of federal funds for affordable housing rental properties due to continued federal budgetary cutbacks.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

The bank's quarterly average loan-to-deposit (LTD) 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, existing demographic and economic factors, and the lending opportunities available in the institution's assessment area.

Clarendon's quarterly average LTD ratio since the last examination equaled 33.8%. As of March 31,

1996, the bank's net loans represented 34.5% of total deposits, which fell below the bank's national peer group level of 60.0%. Clarendon's quarterly average LTD ratio was compared with the only other bank operating within Donley County, DCSB, which was considered to be a similarly-situated institution based upon its asset size, loan portfolio mix, quarterly average LTD ratio, and other factors. As of March 31, 1996, DCSB had total assets of \$37.5 million, with approximately 65.9% of its average loan portfolio concentrated in agriculturally-related loans, and a quarterly average LTD ratio of 36.3%.

Lending in Assessment Area

The bank met the standards for satisfactory performance, as a majority of the 127 loans sampled were made inside the bank's assessment area. Overall, 57.4% on a number-basis and 37.3% on a dollar-basis were made inside Donley County. The relatively low percentage of lending within the assessment area by dollar volume can be attributed to 36 agricultural loans totaling \$1.1 million that were made in adjacent counties. When two agricultural loans totalling \$250 thousand each made in nearby Carson County are excluded from the analysis, the percentage of lending within the assessment area by dollar volume increased to 50.2%.

Since the current assessment area designated by the bank is consistent with the requirements of CRA, the bank's lending activity within Donley County was utilized for the remaining analysis contained in this report. Of the 73 agricultural loans sampled, 37 or 51% were made inside the bank's assessment area. The 37 agricultural loans totaled \$517 thousand and represented 32% of the total dollar volume of agricultural loans sampled. Of the 54 motor vehicle loans sampled, 36 or 67% were made inside Donley County. The 36 motor vehicle loans totaled \$205 thousand and represented 61% of the total dollar volume of motor vehicle 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 of loans is considered reasonable. Examiner analysis consisted of an in-depth review of the 37 agricultural loans and 36 motor vehicle loans extended during the six-month period from November 1, 1995, through April 30, 1996, to borrowers residing in Donley County.

As the following chart demonstrates, only a limited analysis of the bank's distribution of agricultural loans by farm revenue could be performed. The bank did not collect revenue information for 24 of the 37 loans which were located in the bank's assessment area. Of the 13 loans with revenue data, 100% were to farms with gross revenues of less than \$1,000,000 and 85% were extended to farm operations with gross revenues of \$250 thousand or less.

AGRICULTURAL LOAN SAMPLE LOCATED WITHIN DONLEY COUNTY BY INCOME LEVEL *				
NUMBER OF LOANS		GROSS REVENUES (GR)	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
9	70%	GR under 100M	\$ 73	25%
2	15%	100M to 250M	43	15%
2	15%	Over 250M	171	60%
13	100%	Totals	\$287	100%

* Totals and percentages exclude 22 agricultural loans for which income data was not available and 2 agricultural loans for which the bank relied upon borrower income information.

As detailed in the next chart, approximately 97% of the agricultural loans were originated for amounts of less than \$50,000, which clearly demonstrates the bank's willingness to make small dollar farm loans.

AGRICULTURAL LOAN SAMPLE LOCATED WITHIN DONLEY COUNTY ANALYSIS BY DOLLAR AMOUNT		
DOLLAR LEVEL	NUMBER	PERCENTAGE OF
\$0 - \$10,000	23	62%
\$10,001 - \$25,000	9	24%
\$25,001 - \$50,000	4	11%
\$50,001 OR ABOVE	1	3%
TOTALS	37	100%

The motor vehicle loan analysis consisted of analyzing borrower income as a percentage of the 1995 Texas Nonmetropolitan MFI. A breakdown by income range for each income category is detailed as follows.

1995 TEXAS NONMETROPOLITAN MEDIAN FAMILY INCOME		
\$28,700		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	Less than 50%	\$14,349
MODERATE-INCOME	50 - 79%	\$22,959
MIDDLE-INCOME	80 - 119%	\$34,439
UPPER-INCOME	120% and over	over \$34,439

Analysis of the motor vehicle loan distribution among the various income levels revealed an outstanding distribution of loans, which is summarized on the following table:

MOTOR VEHICLE LOAN SAMPLE LOCATED WITHIN DONLEY COUNTY				
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
3	15%	Low-income	\$ 23	17%
9	45%	Mod-income	53	41%
4	20%	Mid-income	40	31%
4	20%	Upp-income	14	11%
20	100%	Totals	\$130	100%

* Totals and percentages excluded 16 motor vehicle loans for which income data was not available.

Again, the analysis is somewhat limited by the examiner's inability to obtain income data on a large portion of the sampled loans. Of the motor vehicle loans analyzed, 60% on a number-basis and 58% on a dollar-basis were made to low- or moderate-income borrowers. Both percentages exceeded the 44.1% combined Census figure for low- and moderate-income families residing in Donley County. Low- and moderate-income families represented 26.2% and 17.9%, respectively, of Donley County's population based upon Census data.

To mitigate the lack of income information, an analysis by dollar amount was performed. As shown in the following chart, 64% of the motor vehicle loans were originated for amounts of less than

\$5,000.

MOTOR VEHICLE LOAN SAMPLE LOCATED WITHIN DONLEY COUNTY ANALYSIS BY DOLLAR AMOUNT		
DOLLAR LEVEL	NUMBER	PERCENTAGE OF
\$0 - \$1,000	4	11%
\$1,001 - \$5,000	19	53%
\$5,001-\$15,000	11	31%
\$15,001 OR ABOVE	2	5%
TOTALS	36	100%

Beyond that, a review of loans secured by cars and trucks that were made in March and April of 1996, found that 69.7% were secured by collateral aged over five years. Therefore, it is evident that the bank is making considerable efforts to make motor vehicle loans to all members of its community, including low- and moderate-income borrowers, based upon the significant number of small dollar loans and loans secured by collateral aged over five years.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the bank's geographic lending distribution was considered reasonable and met the standards for satisfactory performance. Analysis by BNA was limited due to the fact that all three BNA's comprising Donley County were middle-income BNAs. There were no apparent gaps in the bank's distribution of loans among the three BNAs. It was noted that the southeast BNA encompassing the city of Hedley, Texas, whose population represented 22.5% of Donley County's total population and whose MFI represented 80.9% of Donley County's MFI, received only 8.2% of the total loans sampled. An analysis of all loans made during the first six months of 1996 using the bank's internal geocoding system found a reasonable distribution of loans throughout its 8 designated regions, with no apparent gaps in the dispersion of loans being noted. Two of the eight regions lying within the city limits of Clarendon, Texas, which had higher percentages of low- and moderate-income individuals living within them according to bank management, received 10.1% of the loans made during this period, which was considered reasonable.

RESPONSE TO COMPLAINTS

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