

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Cleburne State Bank

Name of Institution

Cleburne

City

Texas

State

Mary A. Clouthier

Examiner-in-Charge

200 North Ridgeway

Street

Johnson

County

86033

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 **Cleburne State Bank, Cleburne, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of May 14, 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 **Outstanding**.

The bank's loan distribution of its primary business emphasis, commercial lending, exhibits an excellent dispersion throughout the assessment area by both census tract and borrower revenue. Approximately 36 percent of those loans contained in a six month sample were made to borrowers with gross revenues less than \$250 thousand. As for the geographic distribution, 36 percent of the sampled loans were extended to borrowers whose businesses are located in moderate-income areas. Additionally, the bank's willingness to extend small dollar business loans is evident in that 100% of the sampled loans were originated in amounts less than \$100 thousand.

The distribution of consumer loans secured by motor vehicles also lends support to the bank's rating, as more than 70 percent of the sampled loans were extended to low- or moderate-income borrowers. The bank's performance is further supplemented by its extension of community development loans to a local builder who specializes in low- to moderate-income housing.

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

CLEBURNE STATE BANK CLEBURNE, TEXAS 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	X		
Response to Complaints	No Complaints were received since the last examination.		

DESCRIPTION OF INSTITUTION

Cleburne State Bank is a locally-owned financial institution in Cleburne, Texas, with its main office located at 200 North Ridgeway Road. It has one motor bank facility located on the east side of town in a low-income area.

As of December 31, 1995, the bank reported total assets of \$65,083 thousand. Loans represented 49.07 percent of deposits. As indicated in the following chart, the bank's primary lending focus continued to be commercial related, accounting for 39.21 percent of the loan portfolio.

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 934	3.12
Residential 1-4	6,551	21.89
Multifamily	181	0.61
Commercial	7,909	26.42
Agricultural	521	1.74
Total Real Estate	16,096	53.78
Consumer:		
Open-end credit	63	0.21
All other	8,731	29.17
Commercial and Industrial	3,827	12.79
Agricultural	998	3.33
State and Political Obligations	0	0.00
Other	215	0.72
Gross Loans	\$29,930	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 JOHNSON COUNTY

The bank has identified its assessment area as Johnson County, which is part of the Fort Worth/Arlington Metropolitan Statistical Area (MSA). The city of Cleburne serves as the county seat of Johnson County and is located 29 miles south of Fort Worth and 55 miles southwest of Dallas. The adjusted 1990 census estimates a population of 22,640 for Cleburne and 97,762 for Johnson County.

The 1990 median family income (MFI) for the MSA was \$33,765. Based on this figure, there are zero low-income, two moderate-income, 12 middle-income, and one upper-income census tracts. According to the 1990 census data, slightly more than 41 percent of the families residing in Johnson County are considered low- or moderate-income. However, 88 percent of those families reside in middle-income census tracts. This phenomena has resulted in several of the middle-income tracts barely meeting the minimum income limit (80 percent of MFI) to be classified as middle-income. In fact, six (50 percent) of the middle-income tracts report an average income of less than 85 percent of the MFI.

The Office of Housing and Urban Development updates MFI on an annual basis and reports the 1995 Fort Worth/Arlington MSA's MFI to be \$46,100. For CRA purposes, borrower income classifications are based on the revised number. Refer to the Income Category chart in [Lending to Borrowers of Different Incomes and to Businesses of Different Sizes](#) section for specific definitions of income categories.

Community contacts established during the examination described the local economy as stable, with some employment, population, and construction growth noted. The community served as a major train engine and railcar repair facility for the Santa Fe Corporation up until several years ago, when the company closed the facility and eliminated several hundred jobs. Since that time, the community's employment base has increased slightly due to the expansion and/or relocation of several companies including another train engine and railcar service and repair company, a trucking company, and a chemical firm. The majority of commercial, retail, and residential sector growth has been in the western part of the city, while the older portions of the city located in the east and northeast areas have experienced some housing stock deterioration due to aging and lack of maintenance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The bank'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 49.10 percent. As of December 31, 1995, the bank's net loans represented 49.07 percent of total deposits, which fell below the average reported for the bank's national peer group of 65.58 percent. To better

understand the bank's performance in relation to its immediate peer group, a loan-to-deposit ratio analysis was conducted of banks located in Johnson County. As of December 31, 1995, four banks considered similarly-situated to the subject bank had loan-to-deposit ratios ranging from 41.93 to 62.99 percent, with the average being 56.24 percent.

LENDING IN ASSESSMENT AREA

A review of sampled loans originated indicated a vast majority of the loans extended were located inside the assessment area and the institution exceeds the standards established for this performance criteria. Examiner analysis included a review of 49 small business loans and 109 consumer loans secured by motor vehicles. The small business and consumer loan review sampled six months of activity. Of the 158 loans sampled, 143 (or 91 percent) were found to be within the bank's assessment area.

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

A review of the bank's distribution of loans in its assessment area by gross revenue and borrower income revealed an outstanding distribution of loans. As the following chart demonstrates, 75 percent of the small business loans sampled were extended to businesses with gross revenues of less than \$1,000,000. Additionally, 36 percent of the businesses had gross revenues less than \$250,000. It should also be noted that 100 percent of the small business loans sampled were originated for amounts less than \$100,000, emphasizing the bank's willingness to make small dollar business loans.

SMALL BUSINESS LOAN SAMPLE BY INCOME LEVEL				
NUMBER OF LOANS		GROSS REVENUES (GR) (THOUSANDS)	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	11%	GR <100	\$ 33	6%
7	25%	100 > GR < 250	73	15%
11	39%	250 > GR < 1,000	157	32%
7	25%	GR > 1,000	232	47%
28	100%	Total*	\$495	100%

* Totals do not include five loans for which income information was not available. The above chart also excludes nine loans for which the bank relied upon borrower income rather than gross business revenue in making its credit decision. Of those nine loans, two of the borrowers (22%) were considered low- or moderate-income.

The consumer loan analysis consisted of analyzing borrower income as a percentage of the Fort Worth/Arlington MSA's median family income. A breakdown by income range for each income category is detailed below:

1995 FORT WORTH/ARLINGTON METROPOLITAN STATISTICAL AREA MEDIAN FAMILY INCOME (MFI) \$46,100		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0 - 50%	\$23,050
MODERATE-INCOME	50 - 80%	\$36,880
MIDDLE-INCOME	80 - 120%	\$55,320
UPPER-INCOME	120% and over	over \$55,320

An analysis of the consumer loan distribution among the various income levels is detailed on the following chart and revealed an above average 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
43	47%	Low-income	\$201	34%
23	25%	Mod-income	140	24%
18	20%	Mid-income	152	26%
7	8%	Upp-income	98	16%
91	100%	Total*	\$591	100%

* Total excludes ten loans for which income information was not available.

Of the consumer loans sampled, 72 percent were made to low or moderate-income borrowers. The 1990 United States Census figures indicate that low- and moderate-income families comprised approximately 22 and 19 percent, respectively, of the assessment area's total population. On an overall basis, the level of lending to low- and moderate-income individuals is well above the percentage of the population in the corresponding income categories. While only 28 percent of the number of loans extended were to middle- or upper-income borrowers, those loans accounted for 42 percent of the dollar volume. The distribution of loans among all borrower income levels, when considered by both number and dollar volume, exhibits an excellent dispersion.

It is also noted that, since the previous examination, management extended eight interim-construction loans to a builder who specializes in affordable housing. The individual homeowners work with the Farmers Home Administration (FmHA) to obtain permanent funding. According to management, the income of the applicant cannot exceed \$31,000. These loans are given favorable consideration as community development loans in that the loans provided affordable housing to low- and moderate-income borrowers and are not considered mortgage, consumer, small business, or small farm loans under the regulation's definitions.

GEOGRAPHIC DISTRIBUTION OF LOANS

The following chart presents the conclusions of a review of the bank's distribution of loans among moderate-, middle-, and upper-income geographies which was performed on the sampled loans.

LOAN SAMPLE BY CENSUS TRACT				
	SMALL BUSINESS LOANS		CONSUMER LOANS	
INCOME CATEGORY	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	NA	NA	NA	NA
MOD-INCOME	15	36%	11	11%
MID-INCOME	26	62%	68	70%
UPP-INCOME	1	2%	18	19%
TOTAL *	42	100%	97	100%

* Totals do not include four consumer loans in which a census tract could not be determined.

As noted under the Assessment Area discussion, many of the middle-income census tracts barely meet the minimum income limit of the income category. Six of the 12 middle-income tracts have an average income which is less than 85% of the MSA's median family income. It should be noted that 79% of the small business and 49% of the consumer loans originated were to borrowers living in census tracts with average income figures below 85% of the MFI. When these numbers are analyzed in conjunction with the borrower distribution numbers presented previously, it is evident that the bank is extending credit to many of the low- and moderate-income borrowers residing in middle-income census tracts.

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.