



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 25, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kress National Bank
Charter Number 15168

Highway 87 & 4th Street
Kress, TX 79052-0000

Office of the Comptroller of the Currency

LUBBOCK (WEST TEXAS) Field Office
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Lubbock, TX. 79424-1319

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.

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

Kress National Bank (KNB) has a satisfactory performance record under the Community Reinvestment Act (CRA). This is supported by the following factors:

- KNB's loan-to-deposit ratio is reasonable when compared to similarly situated financial institutions and given the local credit needs and competition. The loan-to-deposit ratio averaged 51.10 percent during the evaluation period.
- A substantial majority of KNB's loans are located within the assessment area (AA). Based on a sample of 50 loans, 90 percent by number and 97.49 percent of the dollar volume of loans were to borrowers within the AA.
- KNB's distribution of loans to farms with gross revenues less than \$1 million is excellent. The bank also has excellent penetration of loans to consumers in low-and moderate-income households.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The bank received no CRA-related complaints during the evaluation period.

SCOPE OF THE EXAMINATION

This Performance Evaluation assesses KNB's record of meeting the credit needs of the community in which it operates. We evaluated KNB under the small bank performance criterion, which includes five performance criteria: the loan-to-deposit ratio, lending within the AA, lending to borrowers of different incomes and to farms of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate KNB's lending performance, a random sample of loans was selected based on the bank's primary loan products. Primary loan products are those that have been originated at the highest percentage by dollar and/or number of loans. Primary loan products during this evaluation period are farm loans and consumer loans. The loan sample consisted of 28 farm loans and 22 consumer loans originated between January 2008 and December 2009.

DESCRIPTION OF INSTITUTION

KNB is a community bank located in Kress, Texas. Kress is located on Interstate 27 approximately 65 miles north of Lubbock, TX and 65 miles south of Amarillo, TX. KNB is wholly owned by Kress Bancshares, Inc., a one-bank holding company also located in Kress. KNB does not have any affiliate relationships.

The bank was rated Satisfactory at our previous CRA examination in January 2006. KNB has no legal or financial circumstances that could impede the bank's ability to meet the credit needs in the AA. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

KNB is a full-service bank operating from a single location, which includes a drive-up facility and an ATM. Bank lobby and drive-through services are provided Monday through Friday from 9:00 AM to 3:00 PM. KNB offers online banking services at www.knbkress.com. The online banking service offers access to account information, online transfers between accounts, and bill pay.

As of December 31, 2009 KNB had total assets of \$32.9 million, with loans and leases comprising approximately 40 percent of this total. The bank’s loan products include agricultural, consumer, commercial, commercial real estate, and 1-4 family real estate loans. The following table depicts KNB’s loan portfolio composition.

Loan Portfolio Composition as of December 31, 2009				
Loan Type	\$ (000)	%	# of Notes	%
Agriculture (including real-estate)	8,908	64.72	205	37.07
Consumer	1,438	10.45	267	48.28
Commercial (including real-estate)	2,301	16.72	52	9.4
Real Estate	1,117	8.11	29	5.24
TOTAL	13,764	100%	553	100%

Source: December 31, 2009 Report of Condition & Bank Loan Trial Balance

DESCRIPTION OF ASSESSMENT AREA

KNB has designated Swisher and Hale Counties as its AA. This area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. Swisher and Hale Counties have a combined population of approximately 44,980. Specific demographic data and economic data for the AA are listed below.

Demographic and Economic Characteristics of Swisher and Hale Counties AA	
<i>Population</i>	
Number of Families	11,394
Number of Households	14,896
<i>Geographies</i>	
Number of Census Tracts	12
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	16.67
% Middle-Income Census Tracts	75.00
% Upper-Income Census Tracts	8.33
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,295
2006 HUD-Adjusted MFI	\$43,100
2007 HUD-Adjusted MFI	\$41,800
2008 HUD-Adjusted MFI	\$43,600
2009 HUD-Adjusted MFI	\$45,600
<i>Economic Indicators</i>	
Unemployment Rate	2.81%
2009 Median Housing Value	\$50,762
% of Households Below Poverty Level	16.99%

Source: 2000 Census data and HUD updated income data

The bank’s AA is comprised of twelve contiguous census tract areas. Two tracts are designated moderate-income, nine are designated middle-income, and one is designated upper-income. Demographic information in the AA shows that 19.60 percent of the families in the AA are considered low-income and 20.54 percent of families are moderate-income. The unemployment rate is 2.81 percent, and 16.99 percent of households are below the poverty level as of the 2000 census. The 2009 HUD-Adjusted median family income is \$45,600.

In addition to KNB, 14 other financial institutions operate within the AA resulting in a high level of competition for loans in the area. The September 30, 2009 FDIC Market Share Report for the AA shows that KNB has only 4.42 percent of all deposits in the AA.

The local economy is based on agricultural-related activities. The largest employers in the area are Tulia, Kress and Plainview Independent School Districts, Wayland Baptist University, Excel Beef Processing, and the Wal-Mart Distribution Center.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

To evaluate KNB’s lending performance, a sample of 50 loans was reviewed. Primary loan products offered by the bank were sampled. The sample consisted of 28 farm loans and 22 consumer loans. Based on the analysis, and consistent with available resources and capabilities, KNB is meeting the credit needs of the AA in a satisfactory manner.

Loan-to Deposit Ratio

KNB’s loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA credit needs. This determination is based on the quarterly average loan-to-deposit ratio from December 31, 2005 to December 31, 2009 of 51.10 percent. During the evaluation period, KNB’s loan-to-deposit ratio ranged from a low of 28.86 percent to a high of 79.67 percent.

The quarterly average loan-to-deposit ratio for banks in geographies similar to the AA is depicted below. Please note that the listing is in alphabetical order and no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000’s) (As of 12/31/09)	Average Loan-to-Deposit Ratio
Citizens Bank	\$90,869	59.28%
First State Bank	\$24,381	49.67%
Hale County State Bank	\$335,923	77.56%
Kress National Bank	\$32,395	51.10%
Vista Bank	\$141,708	56.5%

Source: Institution Reports of Condition from December 2005 to December 2009

Lending in Assessment Area

KNB’s lending in the AA exceeds the standards for satisfactory performance. A substantial majority of the bank’s loans were made within the AA. Our analysis determined that 90 percent of the number of loans and 97.49 percent of the dollar amount of loans in our sample were extended within the bank’s AA. The breakdown by loan category is illustrated in the following table.

Table 1 - Lending in Swisher and Hale County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	20	90.91	2	9.09	22	88,642	77.76	25,354	22.24	\$113,996
Agricultural	25	89.29	3	10.71	28	2,820,625	98.28	49,500	1.75	\$2,870,125
Totals	45	90.00%	5	10.00%	50	\$2,909,267	97.49%	\$74,854	2.51%	\$2,984,121

Source: Loan sample used for CRA performance analysis

Lending to Borrowers of Different Incomes and to Farms of Different Sizes

KNB’s loan portfolio reflects excellent distribution among borrowers of various income levels and farms of different sizes within their AA. Our analysis reviewed income information of 28 farms, and 21 consumer loans in the AA.

Farm Loans - Based on 2009 Business Demographic Data, there are 525 farms located within the AA. Of this number, 94.86 percent of farms reported revenues less than or equal to \$1 million. Of the loans in our sample, 96 percent were to farms reporting annual revenues below \$1 million. This level reflects an excellent penetration of loans to small farms in the AA.

Table 2A - Borrower Distribution of Loans to Farms in Swisher/Hale County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	94.86	3.24	1.90	100%
% of Bank Loans in AA by #	96.00	4.00	0.00	100%
% of Bank Loans in AA by \$	91.14	8.86	0.00	100%

Source: Loan sample, Dunn and Bradstreet data

Consumer Loans - Our analysis reflects excellent penetration of consumer loans to low- and moderate-income households. Based on 2000 Census information, 38.79 percent of households in the AA are low- and moderate income. Our review determined that 85 percent of consumer loans were made to low- and moderate-income households.

Table 2B - Borrower Distribution of Consumer Loans in Swisher/Hale County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.75	60.00	17.04	25.00	19.83	5.00	41.37	10.00

Source: Loan sample; 2000 U.S. Census data.

Geographic Distribution of Loans

KNB’s geographic distribution of loans reflects an overall reasonable dispersion throughout the AA given the bank’s size, primary loan products, and the AA’s demographics. The low penetration to the moderate-income tracts is attributed to their distance from KNB. The moderate income tracts are located in the city of Plainview. Several financial institutions are more geographically accessible to those borrowers.

Farm Loans - The farm loan sample shows reasonable penetration across all geographies. Based on 2000 census information, only 3.43 percent of farms are located in the moderate-income census tracts. Of the loans in our sample, none were to farms in these tracts located in the city of Plainview.

Table 3A - Geographic Distribution of Loans to Farms in Swisher/Hale County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0.00	0.00	3.43	0.00	84.95	100.00	11.62	0.00

Source: Loan sample; U.S. Census data

Consumer Loans - The distribution of KNB’s consumer loans reflects reasonable penetration of moderate-income areas. Based on 2000 census information 16.67 percent of households are located in the moderate-income census tracts. Of the loans in our sample, none were to households in these tracts, likely due to those borrowers’ closer proximity to numerous other financial institutions.

Table 3B - Geographic Distribution of Consumer Loans in Swisher/Hale County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	20.39	0.00	62.58	80.00	17.03	20.00

Source: Loan sample; 2000 U.S. Census data.

Responses to Complaints

No complaints relating to CRA performance have been received by KNB during the evaluation period. KNB has systems in place to ensure that complaints are addressed in a timely manner.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.