

March 31, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Kemp
Charter Number 5932**

**103 South Main Street
Kemp, Texas 75143**

**Office of the Comptroller of the Currency
Southwestern District
500 N. Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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.

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 the First National Bank of Kemp, Kemp, Texas prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 31, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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

The First National Bank of Kemp (FNB) is responsive to the credit needs of the community including low- and moderate-income (LMI) individuals and areas. The bank's loan-to-deposit ratio has been steady throughout 1997 and 1998. The average net loan-to-deposit ratio for that period of 49% is somewhat lower than that of peer institutions. A substantial majority of loans are in the bank's assessment area. The loans reasonably penetrate various geographies and borrower income levels.

The following table indicates the performance level of the **First National Bank of Kemp** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NATIONAL BANK OF KEMP</u> 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 received since the prior examination.		

DESCRIPTION OF INSTITUTION

FNB is headquartered in Kemp, Kaufman County, Texas and was chartered on August 3, 1901. FNB has four banking offices. Automated teller machines (ATM=s) are located at the Kemp mini-bank and the Seven Points office. The banking office locations are: 103 South Main Street in Kemp, Texas, which is the main office and includes the motor bank; 912 East Ninth Street, the mini-bank in Kemp, Texas; 11660 South Highway 274 in Seven Points, Texas, which opened in 1994; and at 214 Park Street in Trinidad, Texas, which opened in 1996. Kemp, a community of approximately 1,000, is approximately 50 miles southeast of Dallas, Texas. Seven Points, a community of approximately 2,500, is approximately 10 miles south of Kemp. Trinidad, a community of approximately 700, is approximately 20 miles south of Seven Points. All three areas have surrounding populations which utilize the bank=s facilities. The local economy is centered in manufacturing, construction, retail, and small agricultural industries. The Kemp and Seven Points economies were primarily based on agriculture (mostly cattle); however, in recent years the local economy has been influenced by primarily blue collar workers that commute to Dallas, Texas or surrounding areas. As of December 31, 1998, FNB had total assets of \$46 million with \$20 million in total loans. The loan mix is evenly dispersed among product lines thusly:

- < Real estate: 35%, of which 73% of these are 1 to 4 family residential; construction and land development, and farmland
- < Consumer: 33%, and
- < Commercial/agricultural: 32%.

FNB is not affiliated with a bank holding company. Creecy family interests control approximately 53% of the bank. There are no financial or legal impediments to the bank=s ability to meet the credit needs of its assessment area. FNB=s business focus is to serve its community=s banking needs.

DESCRIPTION OF ASSESSMENT AREA

FNB defines its one assessment area as the southeastern part of Kaufman County (Kemp), the northwestern part of Henderson County (Seven Points and Trinidad), and the southwestern corner of Van Zandt county. Kaufman and Ellis Counties are in the Dallas Primary Metropolitan Statistical Area (PMSA).

The assessment area contains 16 census tracts with a population of 61,774 based on 1990 census data. The income characteristics of the census tracts are as follows: 0 low income tracts, 12 moderate income tracts, 4 middle income tracts, and 0 upper income tracts. Median family income is \$26,633. Housing units total 30,727 of which 16% are rental occupied units.

The economy is diverse with various industries including: manufacturing; industrial operations; retail and wholesale trade; finance, insurance, and real estate; and farming/ranching.

Major area employers include Wal-Mart, Bealls Department Store, Techniform Metal Curving, Inc., Solar Turbines, Kemp Family Pharmacy, and McClains Restaurant. No area unemployment data was readily available. Primary credit needs include housing (inclusive of home improvement), small business/small farm, and consumer loans. The community contact interviewed for this assessment stated FNB is a willing participant in seeking economic development for its assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

FNB has a satisfactory lending performance. The bank's net loan-to-deposit ratio is below peer institution averages but has been increasing at a rate of 3.6 times these institutions from the beginning of 1997 through the end of 1998. The peer group is comprised of banks of similar asset size and type and location. FNB's net loan-to-deposit ratio averaged 49% for the past eight quarters while its peer average was 68%. FNB originated 142 home purchase, home improvement, or home refinancing loans for approximately \$1.35 million according to its 1998 Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR).

A substantial majority of the bank's home mortgage lending is within the assessment area. According to the 1998 HMDA-LAR, 100% of the home mortgage loans originated were in the assessment area.

A bank report shows 93% of all new loans funded in 1998 are within the assessment area.

FNB is aware of government sponsored loan programs and has one Small Business Administration (SBA) loan outstanding for approximately \$68 thousand. Management's philosophy is that if a borrower qualifies for a government guaranteed loan, then FNB can generally fund the loan at less expense to the borrower.

Geographic loan distribution is reasonable throughout the assessment area. Based on the 1998 HMDA-LAR, the distribution within the assessment area is as follows:

CENSUS TRACT	# OF LOANS	\$ OF LOANS (000's)
Low Income	0	0
Moderate Income	137	1,300
Middle Income	5	48
Upper Income	0	0

Dispersion of loans by income level is reasonable. According to the 1998 HMDA-LAR, there are no income levels with little or no loan penetration. The following table illustrates the dispersion:

INCOME LEVEL	# OF LOANS	\$ OF LOANS (000's)
Low	68	354
Moderate	40	290
Middle	20	229
Upper	14	475

Bank records indicate a reasonable penetration among businesses of different sizes with gross annual revenues ranging from \$10 thousand to \$3 million.

FNB did not receive any consumer complaints regarding CRA performance since the last examination. Our most recent fair lending examination revealed no violations of antidiscrimination laws or regulations.