

PUBLIC DISCLOSURE

August 24, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**State Bank of Kingsville
Certificate Number: 02412**

**300 East King Street
P.O. Box 991
Kingsville, Texas 78364-0991**

Federal Deposit Insurance Corporation

**Division of Compliance and Consumer Affairs
1910 Pacific Avenue, 20th Floor
Dallas, Texas 75201**

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.

TABLE OF CONTENTS

I.	General Information	1
II.	Institution Rating	1
III.	Description of Institution	2
IV.	Description of Assessment Area	2
V.	Conclusions	3
VI.	Glossary	7

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 **State Bank of Kingsville** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **August 24, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

Lending performance demonstrates a reasonable responsiveness to credit needs in the assessment area. The distribution of loans to borrowers of different income levels is comparable to area demographics. Additionally, loans are reasonably dispersed throughout the assessment area. A majority of the loans originated were extended within the assessment area. The loan-to-deposit ratio at 45 percent as of June 30, 1998, reflects satisfactory lending activities.

DESCRIPTION OF INSTITUTION

State Bank of Kingsville is a commercial bank operating one office in downtown Kingsville. Both the lobby and the drive-in offer convenient banking hours and services. An automated teller machine is located on the premises.

The June 30, 1998, Report of Condition revealed total assets of \$32,526,000 and gross loans of \$13,325,000. The bank's primary business focus is residential real estate and consumer loans. Residential real estate loans comprise 30 percent and consumer loans represent 29 percent of gross loans, respectively.

The bank is owned by Kingsville State Bancshares, Inc., a one-bank holding company. No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

The assessment area is defined as the five census tracts comprising Kleberg County. The 1990 Census indicated one of the five tracts is designated moderate-income, one is middle-income, and three are upper-income. The assessment area does not arbitrarily exclude any low- or moderate-income areas.

The bank has many competitors in Kleberg County including three financial institutions as well as numerous credit unions, finance companies, and pawn shops. Kleberg County's three largest industries, as a percentage of total industries, are government (35 percent), service (23 percent), and retail trade (20 percent). As of July 1998, the unemployment rate for Kleberg County was 7.5 percent.

According to the 1990 Census, the population of Kleberg County is 30,274. Approximately 38 percent of the families in Kleberg County earn less than 80 percent of the 1990 statewide median family income of \$24,585. Further, approximately 22 percent of these families live below the poverty level. Fifty percent of the 12,008 housing units in the county are owner-occupied, thirty-four percent are rental units, and sixteen percent are vacant. The median home value in the county is \$41,021.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Sampling Information

To analyze lending performance, examiners selected and reviewed a sample of consumer loans originated since August 1997. Consumer loans were selected because they represent 68 percent of the number and a large proportion of the dollar volume of loans originated since the last evaluation. Additionally, management indicated consumer loans were the bank's primary loan product. The sample consisted of 43 consumer loans totaling \$308,507 from a potential universe of 1,002 loans totaling \$6,801,819.

LENDING TO BORROWERS OF DIFFERENT INCOMES

The bank has demonstrated satisfactory penetration among individuals of different income levels. The Department of Housing and Urban Development's estimated 1998 statewide non-metropolitan median family income (MFI) figure of \$32,100 was used to determine each borrower's income classification. The following table provides information on how each income level is defined.

INCOME LEVEL	PERCENT OF MFI	INCOME RANGE
Low	Less than 50%	Less than \$16,050
Moderate	50% to 80%	\$16,050 to less than \$25,680
Middle	80% to 120%	\$25,680 to less than \$38,520
Upper	120% and over	\$38,520 and over

The table on the following page illustrates the bank's performance regarding consumer lending within the assessment area to borrowers of different income levels. In addition, the table includes the percentage of families in the assessment area within each income level according to the 1990 Census.

CONSUMER LOANS					
INCOME LEVEL	PERCENT OF FAMILIES	NUMBER OF LOANS	PERCENT	DOLLAR AMOUNT	PERCENT
Low	26	9	23	24,101	9
Moderate	13	9	23	23,368	9
Middle	18	6	14	19,601	7
Upper	43	16	40	205,835	75
TOTALS	100	40	100	\$272,905	100

As reflected in the table above, the percentage of the number of consumer loans extended to low- and moderate-income borrowers is slightly higher than the percentage of low- and moderate-income families within the assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the loans sampled reflects the bank's satisfactory performance in serving the geographies in its assessment area. The consumer loan distribution is presented in the following table which includes the percentage of families living in the geographies according to the 1990 Census. The bank's only office is located in census tract 205, an upper-income geography.

CONSUMER LOANS					
INCOME LEVEL OF TRACT	PERCENT OF FAMILIES	NUMBER OF LOANS	PERCENT	DOLLAR AMOUNT	PERCENT
Moderate	24	12	30	27,998	10
Middle	16	8	20	129,975	48
Upper	60	20	50	114,932	42
TOTALS	100	40	100	\$272,905	100

The table reveals that 30 percent of the number of consumer loans sampled were made to borrowers in the moderate-income geography. Such percentage is slightly higher than the percentage of families living in the moderate-income geography.

LENDING IN ASSESSMENT AREA

The bank originates a majority of its loans within the assessment area indicating satisfactory performance. Specifically, 93 percent of the number and 88 percent of the dollar volume of the consumer loans sampled were extended within the assessment area.

LOAN-TO-DEPOSIT RATIO

The bank's lending activities reflect satisfactory performance. The average loan-to-deposit ratio, based on 13 quarters since the last evaluation, is 36 percent. The June 30, 1998, Report of Condition revealed a loan-to-deposit ratio of 45 percent. In comparison, the statewide average loan-to-deposit ratio for similar institutions (less than \$50 million in total assets) as of March 31, 1998, was 51 percent.

The loan-to-deposit ratio has increased from 30 percent as of June 30, 1995, to 45 percent as of June 30, 1998. This growth in loans is attributed to management's increased emphasis on lending. The bank changed management, as well as its lending philosophy, in July 1993. The results of these changes are reflected in the bank's rising loan-to-deposit ratio.

For further analysis, the following table compares the March 31, 1998, loan-to-deposit ratios of the bank and Kleberg First National Bank of Kingsville (KFNBK).

NAME OF INSTITUTION	LOAN-TO-DEPOSIT RATIO	TOTAL ASSETS (000)
State Bank of Kingsville, Kingsville	44%	\$31,552
Kleberg First National Bank of Kingsville, Kingsville	69%	\$165,933

KFNBK was selected for comparison because it is the only other financial institution headquartered in Kleberg County. In addition, KFNBK is the bank's primary competitor. However, KFNBK is not comparable to the bank in terms of resources because KFNBK has more than five times the total assets and deposits of State Bank of Kingsville.

RESPONSE TO COMPLAINTS

The bank has not received any CRA-related complaints since the previous evaluation.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

There were no violations of the substantive provisions of the antidiscrimination laws and regulations.

GLOSSARY

BLOCK GROUP AREA - the smallest area defined by the Census Bureau for which it collects data. A subgroup of census tracts or block numbering areas.

BLOCK NUMBERING AREA - an area defined by the Census Bureau with State assistance, similar to a census tract. Usually located in rural areas.

CENSUS TRACT - a small locally demarcated area, usually in a metropolitan neighborhood, defined by the decennial census to generally consist of stable boundaries and an average population of 4,000.

HMDA - Home Mortgage Disclosure Act (see HMDA-LAR)

HMDA-LAR - Home Mortgage Disclosure Act-Loan Application Register. The Home Mortgage Disclosure Act requires institutions located or operating in MSAs to record certain information for all applications received for the purpose of purchasing, improving, or refinancing a dwelling.

LOW-INCOME -

- for a geography - for areas located in an MSA, this refers to income levels less than 50% of the MFI for the MSA in which the tract is located. For nonmetropolitan areas, this refers to income levels less than 50% of the MFI for all nonmetropolitan areas in the state in which the geography is located.
- for individuals - this refers to income levels less than 50% of the most recent year's estimation of the MFI by the Department of Housing and Urban Development.

MFI - median family income as determined by either the Census Bureau or adjusted by HUD.

MIDDLE-INCOME - determined using the same methodology as for low-income. The percentage used for middle-income designation is 80% - 119%.

MODERATE-INCOME - determined using the same methodology as for low-income. The percentage used for moderate-income designation is 50%-79%.

MSA - metropolitan statistical area as determined by the Census Bureau. Usually consists of contiguous census tracts and block numbering areas comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

UPPER-INCOME - determined using the same methodology as for low-income. The percentage used for upper-income designation is greater than or equal to 120%.