

PUBLIC DISCLOSURE

August 19, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Delta Bank
Certificate Number: 31050**

**Post Office Box 189
Cooper, Texas 75432-0189**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1910 Pacific Avenue, 19th 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.

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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 Delta Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **August 19, 2002**. 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**.

The FDIC also assigned a Satisfactory rating at The Delta Bank's last CRA evaluation dated November 6, 1997.

For this one-office \$20 million bank located in the largely rural community of Cooper, Texas, examiners applied the performance factors applicable to CRA small banks: lending to borrowers of different incomes, the geographic distribution of loans, lending inside the assessment area, loan-to-deposit ratio, and response to CRA-related complaints. Management did not request a review of the bank's investments and services for consideration of an Outstanding rating. Since there were no CRA-related complaints received since the last evaluation, this factor was not weighted in the assignment of the overall rating. Also, due to the assessment area consisting of only moderate-income geographies, the geographic distribution factor did not receive any weight.

Consumer and residential real estate loans were selected as the products upon which to evaluate the bank's performance. Individual conclusions under each factor are summarized below, with performance analysis detailed on successive pages within this evaluation.

- Given area economic demographics, the bank demonstrated a strong record of lending to borrowers of different incomes for both loan products sampled.
- The bank's lending inside the assessment area reflected a satisfactory level of performance. The bank generated a majority of the number and dollar amount of its total loans within the assessment area, 80 percent and 70 percent, respectively.
- The bank's average loan-to-deposit ratio of 44.80 percent demonstrated a satisfactory level of performance within the context of the bank's resources and the credit needs within the assessment area.
- The Delta Bank's performance under the geographic distribution factor is considered satisfactory.

DESCRIPTION OF INSTITUTION

The sole office of The Delta Bank is located in Cooper, Texas, which is approximately 95 miles northeast of Dallas, Texas, and 22 miles southwest of Paris, Texas. The bank was insured by the FDIC in 1934, and currently employs seven people. Banking hours are from 9:00 a.m. to 3:00 p.m. Monday through Thursday, with hours extended until 6:00 p.m. on Fridays. The bank is conveniently located on the square in the downtown area.

As of March 31, 2002, The Delta Bank reported total assets of \$20,429,000, total liabilities of \$18,182,000, and total equity of \$2,247,000. The bank offers a variety of deposit products and traditional lending products comprised of residential real estate loans, including mobile home loans; agriculture loans for production, equipment, and real estate; commercial loans for working capital, equipment, and real estate; and consumer installment loans for various personal purposes, secured and unsecured, for amounts as small as \$400. The most requested loan type is for consumer purposes. *Table 1* shows the composition of the loan portfolio by loan type as of March 31, 2002:

Table 1

Type of Loan	Dollar Amount	Percent
Single Family Real Estate	\$2,402,000	28%
Agriculture and Agricultural Real Estate	\$1,182,000	14%
Commercial and Commercial Real Estate	\$2,345,000	28%
Individual/Consumer	\$2,427,000	29%
Other	\$ 104,000	1%
Total Loans	\$8,460,000	100%

There are no legal impediments or other factors that would inhibit the bank's ability to meet the assessment area credit needs. The bank's financial condition, product offerings, and lack of regulatory impediments enhance its ability to meet local credit needs.

DESCRIPTION OF THE ASSESSMENT AREA

The Delta Bank has designated its assessment area as Delta County, which is a non-metropolitan area. Delta County consists of two Block Numbering Areas [BNAs] that are both middle-income as designated by the U.S. Census Bureau. BNA 9501 encompasses most of the county, and BNA 9502 generally follows the city limits of Cooper. BNA 9501 is considered rural and includes the towns of Ben Franklin, Enloe, Klondike, Lake Creek, and Pecan Gap. Cooper is the county seat and has the largest population. The assessment area is reasonably drawn.

The assessment area is primarily agriculturally oriented. There are 75 private nonfarm establishments, employing 810 people. The land area of Delta County is 277 square miles. The Delta Bank is located in BNA 9502. In comparison to the entire state of Texas, Delta County has 25 percent more low-income households and 10 percent more low-income families. The state has 17 percent more households and 40 percent more families that are designated moderate-income. Regarding individuals living below poverty level, Delta County has 50 percent more households and 15 percent more families in comparison to statewide averages. Selected demographic data from the 1990 census is provided in *Table 2*:

Table 2

Demographics			
	Delta County	BNA 9501	BNA 9502
Population	4,857	2,500	2,357
Population Age 65+ years	24%	21%	26%
Unemployment	2%	1%	3%
Families	1,331	726	605
Median Family Income [2002 HUD est.]	\$36,100	\$36,100	\$36,100
Low-Income Families	24%	20%	28%
Moderate-Income Families	12%	11%	14%
Families below Poverty Level	16%	12%	21%
Households	1,884	983	901
Median Household Income	\$19,642	\$23,419	\$15,521
Low-Income Households	31%	26%	36%
Moderate-Income Households	13%	11%	15%
Households below Poverty Level	24%	19%	30%
Households w/ Social Security Income	43%	42%	44%
Housing Units	2,305	1,208	1,097
Owner-Occupied Units	63%	82%	83%
Vacant Units	18%	18%	17%
Mobile Homes	6%	9%	4%
Median House Value	\$29,564	\$30,300	\$28,500

Source 1990 US Census Data & 2000 US Census Data

The U.S. Department of Housing and Urban Development [HUD] issues annual estimates, which update median family income for metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions. The HUD-estimated Median Family Income [MFI] for non-metropolitan statistical areas [MSA] for 2000 is \$34,700, for 2001, the figure is \$35,800, and for 2002, the figure is \$36,100. All three figures were used for the borrower distribution analysis, as the loan sample used for the evaluation of lending to borrowers of different incomes included loan originations from 2000, 2001, and 2002. *Tables 3a, b, and c* provide information on how each income level is defined and classified.

Table 3a

Median Family Income Data for 2000		
Income Level	Percent of MFI	Income Range
Low	Less than 50%	Less than \$17,350
Moderate	50% to 80%	\$17,350 to less than \$27,760
Middle	80% to 120%	\$27,760 to less than \$41,640
Upper	120% and over	\$41,640 and over

Table 3b

Median Family Income Data for 2001		
Income Level	Percent of MFI	Income Range
Low	Less than 50%	Less than \$17,900
Moderate	50% to 80%	\$17,900 to less than \$28,640
Middle	80% to 120%	\$28,640 to less than \$42,960
Upper	120% and over	\$42,960 and over

Table 3c

Median Family Income Data for 2002		
Income Level	Percent of MFI	Income Range
Low	Less than 50%	Less than \$18,050
Moderate	50% to 80%	\$18,050 to less than \$28,880
Middle	80% to 120%	\$28,880 to less than \$43,320
Upper	120% and over	\$43,320 and over

A community contact stated that since the 1990 census, there has been limited growth in the assessment area, mostly in the rural areas. The credit needs of Delta County were identified as consumer purpose, including housing, and agricultural purposes. According to the contact, The Delta Bank is visible in the community, involved in area organizations, and meeting the credit needs of the community. The contact stated that a large chain-motel would be a great addition to the area to boost the economy. Cooper has a couple of small motels and a few bed and breakfasts. During 2000, The Delta Bank renewed a local motel loan and added around \$40,000. The funds were used to expand the office space and add three rooms to the existing eight.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan Sampling

The Delta Bank provided a download of the entire loan portfolio, which contained 720 loan originations from December 3, 1997, to July 19, 2002. Of those originations, 492 loans, 68 percent by number and 31 percent by dollar amount, were consumer loans and 84 loans, 12 percent by number and 25 percent by dollar amount, were residential real estate loans. This is consistent with the bank's lending strategy and assessment area's credit needs. As previously mentioned, the March 2002 Call report indicated that 29 percent of the dollar volume is in consumer loans and 28 percent is residential real estate.

Given the aforementioned information, consumer loans and residential real estate loans were selected for evaluation and analysis. To obtain a 90 percent confidence level with 15 percent precision, from a potential universe of 492 consumer loans and 84 residential real estate loans, 41 consumer loans and 31 residential real estate loans were randomly selected and sampled. The consumer loan sample totaled \$192,049 and the residential real estate sample totaled \$867,934. The analysis of lending within the assessment area included all loan categories with originations since the prior evaluation. The geographic distribution and borrower profile analyses were performed using the random samples of consumer loans and residential real estate loans located within the assessment area.

Lending to Borrowers of Different Incomes

The bank has demonstrated strong performance in lending to borrowers of different incomes for both the consumer and residential real estate loans sampled.

Consumer Loans

Tables 4a and b on the following page depict the distribution of the sampled loans by the borrowers' income level. The table also includes the total households within the assessment area, broken out by income category.

Table 4a

Distribution of Consumer Loans by Income Level of Borrowers - By Number										
Borrower Income Level	Total Households		2000		2001		2002		Total	
	#	%	#	%	#	%	#	%	#	%
Low	578	31	1	10	4	22	5	28	10	24
Moderate	247	13	4	80	11	61	7	39	22	54
Middle	225	12			3	17	6	33	9	22
Upper	834	44								
Total	1,884	100	5	100	18	100	18	100	41	100

Table 4b

Distribution of Consumer Loans by Income Level of Borrowers – By Dollar Amount										
Borrower Income Level	Total Households		2000		2001		2002		Total	
	#	%	(000s)	%	(000s)	%	(000s)	%	(000s)	%
Low	578	31	12	40	14	14	12	18	38	20
Moderate	247	13	18	60	44	45	45	68	107	56
Middle	225	12			38	41	9	14	47	24
Upper	834	44								
Total	1,884	100	\$30	100	\$96	100	\$66	100	\$192	100

It is expected that the majority of consumer loans would be to lower-income individuals, as consumer loans present the most viable lending area for both low- and moderate-income individuals. Generally, low- and moderate-income individuals have a greater need for small dollar, short-term loans than do the upper-income categories, who have greater access to more funding sources for these needs.

The bank's performance in lending to lower-income borrowers exceeds these expectations. The percentage of sampled loans by number and dollar amount, to low- and moderate-income borrowers, compares well to the percentage of both the low- and moderate-income populous within the assessment area. This is particularly the case in lending to moderate-income individuals where the number of loans extended to such individuals is four times their representation in the assessment area. The total number of loans made to low-income borrowers is less than the percentage of low-income households; however, the level is within a reasonable range and is considered adequate.

In comparison to the demographic data of the assessment area, The Delta Bank's consumer-purpose lending to borrowers of different incomes, given the emphasis to low- and moderate-income lending, exceeds expectations of satisfactory performance.

Residential Real Estate Loans

Tables 4c and d depict the distribution of the sampled loans by the income level of the borrowers.

Table 4c

Distribution of Residential Real Estate Loans by Income Level of Borrowers - By Number										
Borrower Income Level	Total Families		2000		2001		2002		Total	
	#	%	#	%	#	%	#	%	#	%
Low	315	24	2	25	1	8	1	10	4	13
Moderate	166	12	2	25	3	23	3	30	8	26
Middle	257	19	1	13	2	15	3	30	6	19
Upper	593	45	3	37	7	54	3	30	13	42
Total	1,331	100	8	100	13	100	10	100	31	100

Table 4d

Distribution of Residential Real Estate Loans by Income Level of Borrowers – By Dollar Amount										
Borrower Income Level	Total Families		2000		2001		2002		Total	
	#	%	(000s)	%	(000s)	%	(000s)	%	(000s)	%
Low	315	24	106	36	10	3	15	8	131	15
Moderate	166	12	72	24	67	17	22	12	161	19
Middle	257	19	24	8	51	13	72	40	147	17
Upper	593	45	93	32	264	67	72	40	430	49
Total	1,331	100	\$295	100	\$392	100	\$181	100	\$868	100

The percentage of sampled residential real estate loans by number and dollar amount, to both low- and moderate-income borrowers, compares favorably to the percentage of both the low- and moderate-income populous within the assessment area. Particularly in the case of lending to moderate-income individuals where the number of loans extended is twice the household population. Although the total number of loans made to low-income borrowers is less than the percentage of low-income households, the level is within a reasonable range considering the difficulties low-income borrowers would have in qualifying for higher dollar residential loans.

Of the housing units within the assessment area, 63 percent are owner-occupied, 20 percent are non-owner occupied, and 17 percent are vacant. Affordable housing for lower-income families is also available through the Cooper Housing Authority. These two factors limit the available residential lending opportunities making the bank’s performance even more noteworthy. The number and dollar amount of residential loans made to both low- and moderate-income borrowers, given area demographics, reflects strong residential real estate lending performance.

Based on the bank’s performance with respect to consumer loans and residential real estate loans, emphasizing the bank’s lending to low- and moderate-income borrowers, results revealed outstanding performance in lending to borrowers of different incomes.

Loan-to-Deposit Ratio

The Delta Bank’s average loan-to-deposit ratio [LTD] of 44.80 percent reflects satisfactory performance. This ratio is calculated based on the bank’s quarterly averages since the prior evaluation in November 1997. The rating is supported by the bank’s level of performance and by comparisons with other area institutions. At the previous evaluation in 1997, the average LTD was 46.25 percent.

The Delta Bank’s ratio is in a reasonable range in comparison with the other area bank’s ratios. *Table 5* lists these comparable institutions. Figures are as of March 31, 2002, with the exception of the LTD, which are the average ratios over the past 18 quarters. The banks are alphabetically listed to eliminate the appearance of any ranking. It should be noted that the bank in Enloe has a branch office located in Cooper and has considerably less consumer loans. First National Bank has traditionally been the bank’s closest competitor and The Delta Bank fairs well in comparison.

Table 5

Bank	City	Assets (millions)	Consumer Loans % of Gross Loans	Average LTD
<i>The Delta Bank</i>	<i>Cooper</i>	<i>19</i>	<i>28.69%</i>	<i>44.80%</i>
The Enloe State Bank	Enloe	17	12.76%	94.90%
The First National Bank	Cooper	19	28.68%	29.34%

The bank’s loan policy is not restrictive and management has not set a minimum loan amount. The loan download evidenced that the bank has extended numerous loans that were less than \$1,000, many were as small as \$400. Considering the emphasis on consumer lending, the LTD is considered satisfactory.

Lending in the Assessment Area

In consideration of The Delta Bank’s size and structure, and the size of the assessment area, satisfactory performance concerning lending within the assessment area is noted. Using the download of the bank's loan portfolio of originated loans from December 1997 to July 2002, it was determined that 720 loans totaling \$9,978,084 have been originated since the last evaluation and are still outstanding. As depicted in *Table 6* on the following page, all loans, with the exception of the four obligations to states and political subdivisions, were stratified to give an accurate picture of the bank’s lending performance.

Table 6

Lending in the Assessment Area					
Loan Type	Total Loans Sampled	Number in the AA	Percent	Dollar Amount in AA	Percent
Consumer Loans	492	386	78%	\$2,233,214	72%
Real Estate Loans	84	68	81%	\$1,908,164	78%
Commercial Loans	74	55	74%	\$1,947,879	62%
Agriculture Loans	66	56	85%	\$ 881,329	79%
All Loans	716	565	80%	\$6,970,586	70%

From this analysis, it was determined that The Delta Bank originates a majority of its loans, within its defined assessment area. The bank's lending activity under this factor is deemed satisfactory.

Geographic Distribution of Loans

As the assessment area consists of only two moderate-income geographies little weight is given to this factor. The location of the sampled loans were plotted by zip codes. The findings revealed that loans were distributed throughout the assessment area with a concentration in the city of Cooper. This is reflective of satisfactory performance.

Response to Complaints

The Delta Bank has not received any CRA-related complaints since the last evaluation. The bank has detailed written policies and procedures in place to handle any consumer complaints that it might receive.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified. The Delta Bank was found to be in compliance with Fair Lending laws and regulations.

GLOSSARY

Assessment Area - a geographic area delineated by the bank in accordance with the requirements of the Community Reinvestment Act.

Block Numbering Area [BNA] - an area defined by the U.S. Census Bureau with State assistance, similar to a census tract. Usually located in rural areas.

Geography - a census tract or block numbering area delineated by the U.S. Census Bureau in the most recent decennial census.

Low-Income -

- for a block numbering area - this income range is less than 50 percent of the MFI for all non-MSA areas in the state in which the block numbering area is located.
- for individuals - this refers to income levels less than 50 percent of the most recent year's estimation of the MFI by the Department of Housing and Urban Development [HUD].

Metropolitan Statistical Area [MSA] - determined by the U.S. 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.

Middle-Income - determined using the same methodology as for low-income. The percentage used for middle-income designations is 80 percent to 119 percent.

Moderate-Income - determined using the same methodology as for low-income. The percentage used for moderate-income designations is 50 percent to 79 percent.

Non-Metropolitan Area - All areas outside of metropolitan statistical areas. The definition of non-metropolitan is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Upper-Income - determined using the same methodology as for low-income. The percentage used for upper-income designations is greater than or equal to 120 percent.