

PUBLIC DISCLOSURE

September 7, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community Bank
Certificate Number: 17117**

**1705 East 15th Street
Post Office Box 987
Wellington, Texas 79095-0987**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1910 Pacific Avenue, Suite 1900
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 **Community Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 7, 2004**. 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 rated the institution "Outstanding" at its previous November 19, 1998 evaluation. For this \$55 million, three-office bank, headquartered in the community of Wellington, Texas, examiners reviewed the small bank performance factors. Examiners used agricultural, commercial, and residential mortgage lending to evaluate the bank's lending performance. Examiners weighted agricultural and commercial loans equally but more heavily than residential loans when arriving at the performance criteria conclusions since they comprise 70 percent of the loan portfolio. Conclusions for the applicable performance criteria are summarized below. At management's request, investment and services were considered for an Outstanding rating; however, the bank has no qualified investments or services based upon current CRA definitions. A detailed discussion of each factor is provided elsewhere in this Public Evaluation.

- The institution's average loan-to-deposit ratio of 76 percent reflects a strong level of lending, considering the bank's resources, business strategy, assessment area's credit needs, and other assessment area banks' ratios.
- The bank demonstrated an adequate record of granting credit inside its assessment area.
- The bank exhibited a reasonable penetration of loans to farms and businesses of different sizes and borrowers of different incomes when compared to assessment area demographics.
- The geographic distribution of loans was given no weight since all the assessment area geographies are middle-income tracts.

DESCRIPTION OF INSTITUTION

Community Bank is headquartered in Wellington, Texas, with a branch office each in Clarendon and Sulphur Springs, Texas. Wellington is in Collingsworth County in the Texas Panhandle. Clarendon is located in the neighboring Donley County and is approximately 45 miles west of Wellington. The Sulphur Springs office in Hopkins County, opened in 2004, is located about 325 miles southeast of the main office. All three offices have drive-up windows and the hours of operation are reasonable at each location, with the Sulphur Springs drive-up facility also open on Saturdays. The bank offers residential, consumer, agricultural, and commercial loans including Small Business Administration and Farm Service Agency guaranteed loans. A variety of deposit accounts and services, including an automated teller machine at the Sulphur Springs location, are also available.

As of June 30, 2004, management reported total assets of \$54,818,000, total deposits of \$47,435,000, and total equity capital of \$4,664,000. The investment and loan portfolios comprise 17 percent and 72 percent of the total assets, respectively. The loan portfolio is diversified based upon the dollar amount of loans outstanding as reported in the Consolidated Report of Condition dated June 30, 2004. However, the two primary lending areas are commercial and agricultural lending. These two categories totaled 40 percent and 30 percent of total loans by dollar volume, respectively. Table 1 below indicates the bank's loan distribution as of June 30, 2004.

Table 1 – Loan Distribution as of 06/30/2004		
Loan Type	Dollar Amount \$(000)	Percent of Total Loans (%)
Construction and Land Development	106	1
Secured by Farmland	5,688	14
1-4 Family Residential	6,474	16
Multi-Family (5 or more) Residential	0	0
Commercial	5,552	14
<i>Total Real Estate Loans</i>	<i>17,820</i>	<i>45</i>
Commercial and Industrial	10,188	26
Agricultural	6,273	16
Consumer	4,295	11
Other	641	2
Less: Unearned Income	0	0
Total Loans	39,217	100

Source: Report of Condition.

The institution's financial condition, full line of product offerings, and lack of legal impediments allow management the ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREAS

Community Bank has designated two assessment areas since the Sulphur Springs branch office is over 300 miles east of Wellington. The assessment area for the main office and branch office in Clarendon is Collingsworth and Donley Counties. The assessment area for the Sulphur Springs office is Hopkins County. The two assessment areas are comprised of 12 middle-income geographies with 4 in western Texas and 8 in Hopkins County. There are currently eight financial institutions with ten offices represented in the assessment areas. There are five offices located in both assessment areas. The Glossary provides definitions of geographic and economic terms used in this evaluation.

Table 2 – Demographic & Economic Characteristics of the Assessment Areas		
	Collingsworth/Donley	Hopkins
Assessment Area Population	7,034	31,960
<u>Statewide Non-MSA Median Family Income:</u>		
2000 Median Family Income	\$34,700	\$34,700
2003 Estimated Median Family Income(*)	\$41,200	\$41,200
2004 Estimated Median Family Income(*)	\$42,000	\$42,000
<u>Percentage of Families by Income Level:</u>		
Low-Income	21%	17%
Moderate-Income	19%	18%
Middle-Income	23%	23%
Upper-Income	37%	42%
<u>Number of Total Housing Units:</u>		
1-4 Family Residential	3,389	10,570
Multi-Family	16	1,179
Mobile Home or Trailer	651	2,204
Other	45	67
Owner-Occupied Housing Units	2,195	8,770
Occupied Rental Housing Units	677	3,516
Vacant Housing Units	1,229	1,734
<u>Percentage of Total Housing Units:</u>		
1-4 Family Residential	82%	74%
Multi-Family	1%	9%
Mobile Home or Trailer	16%	16%
Other	1%**	1%
Owner-Occupied Housing Units	53%	63%
Occupied Rental Housing Units	17%	25%
Vacant Housing Units	30%	12%

Source: 2000 US Census; * this figure is based on estimates from the Department of Housing and Urban Development (HUD); ** represents less than 1 percent

Collingsworth/Donley Counties

Based upon 2003 Business Geodemographic Data for this assessment area, services represent the largest employment category with 26 percent, and agriculture is the second largest category with 19 percent. Dun & Bradstreet data indicates that 83 percent of the farms and businesses have less than 5 employees and 95 percent of the operations have gross annual revenues of \$1 million

or less. These figures indicate the prevalence of smaller-sized farms and businesses in the area.

The unemployment rates in Collingsworth and Donley Counties at year-end 2003 were 3.8 percent and 3.5 percent, respectively. These rates have increased in the last two years. The Texas state average during the same time has risen from 4.9 percent to 6.8 percent. Collingsworth County has had better than average employment growth in recent years while Donley County has had no employment growth except for 2002. The State of Texas as a whole has seen steady employment growth for the most part in the last four years.

Hopkins County

Based upon 2003 Business Geodemographic Data for this assessment area, services represent the largest employment category with 31 percent, and retail trade is the second largest category with 20 percent. Agriculture has a much lesser role in the economy in this assessment area compared to the one in western Texas. Dun & Bradstreet data indicates that 87 percent of businesses have less than 10 employees and 93 percent of the businesses have gross annual revenues of \$1 million or less. The figures demonstrate the prevalence of smaller-sized businesses in the area.

The unemployment rate in Hopkins County at year-end 2003 was 5.3 percent. This rate has steadily increased since 2000. The Texas state average during the same time has also steadily increased since 2000. Hopkins County, like Donley County, has had no employment growth except for 2002 in recent years.

One community contact was conducted in conjunction with this evaluation. The contact stated the banks in the Wellington area are adequately providing for all the credit needs in the area. The contact also stated the local institutions were active participants in community activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Examination Methodologies and Loan Sample Universe

Management provided a database listing all outstanding loans originated in the last 12 months. There were 499 loans originated totaling \$11,689,104, and portions of this information was utilized to determine the bank's lending performance. It should be noted that the demographic data from the two assessment areas was combined for the evaluation of the borrower profile performance factor.

As shown previously in Table 1, the bank's loan portfolio is diversified with commercial loans at 40 percent, agricultural loans at 30 percent, and residential loans at 16 percent. Therefore, examiners reviewed these three loan categories for evaluating the bank's CRA performance. Commercial and agricultural loans were given more weight than residential loans in the performance analysis since these are the two largest loan categories by dollar volume. Results based on the number of loans were considered more significant than the dollar volume of loans. Also, due to the bank's previous "Outstanding" rating, examiners expanded the sampling universe to 12 months instead of the minimum six-month review.

The commercial loan universe included 85 loans totaling \$2,946,562 that were originated in the assessment area in the last 12 months. A random sample based on a 90 percent confidence interval with a 15 percent precision level consisting of 20 commercial loans totaling \$731,794 was used to determine lending to businesses of different sizes.

The agricultural loan universe included 66 loans totaling \$4,235,773 that were originated in the assessment area in the last 12 months. A random sample based on a 90 percent confidence interval with a 15 percent precision level consisting of 19 commercial loans totaling \$701,484 was used to determine lending to farm operations of different sizes.

The residential loan universe included 31 loans totaling \$960,696 that were originated in the assessment area in the last 12 months. A random sample, based on a 90 percent confidence interval with a 15 percent precision level, consisting of 20 loans totaling \$601,952 was used to determine lending to borrowers of different incomes.

Loan-to-Deposit Ratio

Community Bank demonstrated a strong level of lending regarding this performance factor. Examiners considered the bank's size, capacity, lending strategy, assessment area credit needs, and the net loan-to-deposit (LTD) ratio of other comparable banks when arriving at this conclusion. As of June 30, 2004, the bank's average net LTD for the 23 quarters since the prior evaluation was 76 percent. This is an increase from the 70 percent average LTD ratio at the November 1998 evaluation. The net LTD ratio varied from a high of 90 percent on September 30, 2003, to a low of 60 percent on December 31, 1998. The net LTD ratio was 82 percent as of June 30, 2004. These factors reflect management's philosophy to increase loan growth to meet the credit needs of both assessment areas, particularly in the Hopkins County area where the new branch is located. There are four other banks headquartered in Collingsworth, Donley, and Hopkins Counties; the data for the most comparable banks in or near the assessment areas are depicted in Table 3 below and is presented in alphabetical order.

Table 3 – Net Loan-to-Deposit Ratios		
Bank Name and Location	Total Assets \$(000) as of 06/30/2004	Average Loan-to-Deposit Ratio
Community Bank Wellington, Collingsworth County, Texas	\$54,818	76%
Comparable Area Banks		
The Donley County State Bank Donley, Donley County, Texas	\$32,681	28%
First State Bank of Mobeetie Mobeetie, Wheeler County, Texas	\$33,167	38%
Wellington State Bank Wellington, Collingsworth County, Texas	\$95,842	65%

Source: Call Reports December 31, 1998 through June 30, 2004.

Three banks were identified for comparison purposes, including one in Wheeler County. Wheeler County is on the northern border of Collingsworth County. There were no comparable banks in Hopkins County. As noted above, the subject bank has a substantially higher LTD ratio than the other comparable banks. Also, management’s willingness to originate small dollar loans is indicative of its commitment to meeting the credit needs of all borrowers within its community. This is reflected by the lack of a stated minimum loan amount in the bank loan policy. This fact and Community Bank’s loan-to-deposit ratio represents a strong response to assessment area credit needs.

Lending in the Assessment Areas

The institution displayed an adequate record of granting loans inside its assessment areas. The assessment areas’ size relative to the bank’s asset size, its office structure, and the loan products reviewed were considered when arriving at this conclusion. Table 4 shows that a majority of the bank’s overall lending both by number and dollar volume is within the assessment area, indicating a satisfactory performance.

Table 4 – Distribution of 2003-2004 Loans Originated in and Out of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	85	64	48	36	133	2,947	58	2,124	42	5,071
Agricultural	66	69	29	31	95	3,265	77	971	23	4,236
Residential	31	89	4	11	35	876	91	85	9	961
Total	182	69	81	31	263	7,088	69	3,180	31	10,268

Source: Bank loan trial

As noted above, the number of loans and dollar volume of loans for these three categories combined both equaled 69 percent originated inside the assessment area. This represents an adequate penetration of lending inside the assessment area.

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

The distribution of loans to farms and businesses of different revenues and borrowers of different incomes reflects a reasonable penetration. Conclusions were derived through an analysis of sampled loans originated inside the assessment area with emphasis placed on the loan distribution to smaller-sized farms and businesses and low- and moderate-income borrowers. Examiners reviewed 19 agricultural, 20 commercial, and 20 residential loans originated in the last 12 months within the assessment areas. In arriving at the overall conclusion, examiners

placed more weight on the bank's record regarding agricultural and commercial lending than residential lending since these are the two largest loan categories.

Agricultural Lending

As Table 5 below shows, loans were made to farms of all sizes. Examiners compared the bank's level of lending to farms with various levels of revenues to the proportion of such farms in the assessment area as reported by 2003 Dun & Bradstreet geodemographic data, the most recent data available.

Table 5 – Distribution of Agricultural Loans by Gross Annual Revenues of Farms					
Gross Annual Revenues \$(000)	Distribution of Farms (% of #) 2003	Agricultural Loans in Last 12 Months			
		#	%	\$(000)	%
\$0-<\$100	49	13	68	305	43
≥\$100-<\$250	37	3	16	47	7
≥\$250-<\$500	7	2	11	30	4
≥\$500-≤\$1,000	1	1	5	319	45
>\$1,000	6	0	0	0	0
Total	100	19	100	701	100

Source: Dun & Bradstreet

The bank is granting loans to farming operations of all sizes but is lending primarily to smaller operations as indicated by the 68 percent of the loan sample to farms with less than \$100,000 in gross annual revenues. The bank's percentage of loans to farms with less than \$250,000 in gross annual revenues (84 percent) is comparable to the 86 percent reflected in the assessment area demographics. It is also noted that only 51 percent of the dollar volume was to entities with less than \$250,000 in gross annual revenues; however, one large loan to a larger farming operation in the area skews this comparison. The overall analysis indicates the bank is originating reasonable numbers of loans to all sizes of farming operations in the assessment area.

Commercial Lending

The institution displayed a reasonable penetration of lending to small businesses. Examiners focused primarily upon gross annual revenues as a direct indication of the bank's efforts at offering credit to smaller businesses.

Table 6 – Distribution of Commercial Loans by Gross Annual Revenues of Businesses					
Gross Annual Revenues \$(000)	Distribution of Businesses (% of #) 2003	Commercial Loans in Last 12 Months			
		#	%	\$(000)	%
\$0-<\$100	50	11	55	109	15
≥\$100-<\$250	25	4	20	461	63
≥\$250-<\$500	12	3	15	111	15
>\$500-≤\$1,000	6	1	5	30	4
>\$1,000	7	1	5	21	3
Total	100	20	100	732	100

Source: Dun & Bradstreet; 2003-2004 loan samples.

As data in Table 6 indicates, lending to businesses is weighted toward smaller-sized businesses with gross annual revenues of \$1 million or less. This is evidenced by 95 percent of the sampled loans by number made to businesses with gross annual revenues of \$1 million or less. It is also noted that 75 percent of the sampled loans the bank originated were to businesses with less than \$250,000 in gross annual revenues. These lending levels compare favorably to the 93 percent of businesses with \$1 million or less in gross annual revenues and 75 percent of businesses with gross annual revenues of less than \$250,000 according to Dun & Bradstreet.

Residential Lending

The bank's distribution of residential loans to borrowers of different incomes reflects a strong penetration. A random sample of 20 residential loans originated in the assessment area in the last 12 months was reviewed to determine distribution of loans to consumers of differing incomes. Borrower income levels for those loans were analyzed, based on the Department of Housing and Urban Development's 2003 and 2004 estimated median family incomes of \$41,200 and \$42,000, respectively, for Texas non-metropolitan areas. Examiners emphasized the bank's total records relative to the demographic data for low- and moderate-income borrowers when arriving at this conclusion.

Table 7 – Distribution of Residential Loans by Borrower Income					
Borrower Income Level	% of Total Families	Residential Loans in Last 12 Months			
		#	%	\$(000)	%
Low	17	4	20	80	13
Moderate	18	5	25	74	12
Middle	24	7	35	225	37
Upper	41	4	20	223	37
Total	100	20	100	602	100*

Source: 2000 U.S. Census; 2003-2004 Loan Sample, * - Does not add to 100 due to rounding

The bank's percentage of loans to both low- and moderate-income borrowers is greater than the assessment area demographics indicating a strong response of providing housing loans to these two income groups. Normally, real estate lending is skewed towards those with more borrowing capacity; therefore, the bank's increased dollar volume to the middle- and upper-income groups is reasonable. Management is commended for their willingness to provide this loan product for all income groups in the assessment area.

Geographic Distribution of Loans

The bank's performance concerning geographic distribution of loans was not reviewed since the two assessment areas both consists of only middle-income geographies.

Response to Complaints

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

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.

GLOSSARY

Census Tract (CT) - an area defined by the Census Bureau.

Dun & Bradstreet – a leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

Geographies - defined as block numbering areas for non- metropolitan areas and as census tracts for metropolitan statistical areas.

Low-income -

- for a **census tract** - this income range is less than 50 percent of the 2000 median family income (MFI) for all non metropolitan statistical areas (non-MSAs) in the state. The 2000 Texas statewide MFI for non-MSAs is \$34,700.
- for **individuals** - income levels less than 50 percent of the most recent MFI as estimated by the Department of Housing and Urban Development (HUD). The 2003 and 2004 Texas MFI for non-MSAs is \$41,200 and \$42,000.

Median Family Income (MFI) - designated income as determined by the Census Bureau or as adjusted by HUD.

Middle-income - determined using the same methodology as for low-income. The percentage used for middle-income designation is 80 percent - 119 percent of MFI.

Moderate-income - determined using the same methodology as for low-income. The percentage used for moderate-income designation is 50 percent - 79 percent of MFI.

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 percent of MFI.