

# **PUBLIC DISCLOSURE**

**June 11, 2007**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Bank of Vernon  
Certificate Number: 21413**

**1918 Pease Street  
P. O. Box 1832  
Vernon, Texas 76385-1832**

**Federal Deposit Insurance Corporation**

**Division of Supervision and Consumer Protection  
1910 Pacific Avenue, 19th Floor  
Dallas, Texas 75201**

**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.

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## INSTITUTION RATING

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

The FDIC rated the institution “Satisfactory” at the previous evaluation performed on September 3, 2002 based on small bank Community Reinvestment Act (CRA) performance criteria.

This evaluation focused on the bank’s agricultural and commercial lending activities. The rating accorded during this evaluation is based on the following with details presented elsewhere in the evaluation.

The Bank of Vernon’s average loan-to-deposit ratio of 49 percent reflects reasonable responsiveness to community credit needs. The bank exhibited satisfactory performance for lending inside the assessment area and lending to businesses and farms of different sizes. In regards to the geographic distribution of loans, the bank demonstrated a reasonable record of dispersing loans among the various census tracts. However, this performance factor carried little weight as the assessment area consists solely of middle- and upper-income geographies. The institution has not received any CRA and Fair Lending complaints; therefore, this factor had no influence on the overall rating.

Management waived consideration of the bank’s investments and services as an additional factor in assessing performance.

## SCOPE OF EXAMINATION

Small bank CRA performance criteria were used to assess the bank's CRA performance. Small banks are institutions with total assets less than \$250 million at the end of each of the previous two calendar years. Performance factors applicable to small banks are loan-to-deposit ratio, percentage of loans inside the assessment area, dispersion of loans based on the borrower's income level, geographic distribution of loans, and response to written complaints.

An analysis of the bank's December 31, 2006, Report of Condition revealed two primary loan products, agricultural loans and commercial loans. By dollar amount, agricultural lending represented 36 percent of total loans and commercial lending comprised 35 percent.

*Table 1* illustrates the volume of originations by number and dollar for the recent twelve month period from May 1, 2006, through May 1, 2007. Again, agricultural and commercial lending products are emphasized by dollar volume.

<b>Table 1 – Loan Originations from 5/1/2006 through 5/1/2007</b>				
<b>Loan Type</b>	<b>Number</b>	<b>%</b>	<b>Dollar Amount (\$000s)</b>	<b>%</b>
Consumer	262	67.7	1,899	35.1
1-4 Family Residential	13	3.4	475	8.8
Commercial	45	11.6	1,765	32.6
Agricultural	67	17.3	1,278	23.5
<b>Total Loans</b>	<b>387</b>	<b>100</b>	<b>5,417</b>	<b>100</b>

Source: Bank records.

As a result, commercial and agricultural lending were chosen as the two products for analysis of the bank's CRA performance and the two products were weighted equally in the overall analysis. Due to the low number and dollar volume of residential real estate lending, this product was not considered in this analysis.

All commercial and agricultural loans extended in this time period were used to evaluate lending in and out of the assessment area. To evaluate lending to farms and businesses of different income levels, the agricultural loans sample consisted of 25 loans totaling \$293,941 and the commercial loan sample consisted of 25 loans totaling \$661,635.

## DESCRIPTION OF INSTITUTION

The Bank of Vernon is a one-office institution located in Vernon, Texas, approximately 50 miles northwest of Wichita Falls. The bank offers a full range of loan and deposit products and services. On August 29, 2005, the bank was purchased by Greater Southwest Bancshares, Inc., Irving, Texas, a two-bank holding company. The affiliated institution is Bank of the West, Irving, Texas.

The Bank of Vernon's product offerings, hours of operation, and financial condition enable the institution to serve the credit needs of the community. The bank offers a full line of deposit and loan products to consumer, residential, agricultural, and commercial customers. The bank's lobby and motor bank are open for business Monday through Thursday from 9:00 a.m. to 2:00 p.m., and Friday until 4:00 p.m. Although ATM services are not available, the bank offers night depository services.

As of the December 31, 2006, Report of Condition and Income, the bank reported assets of \$20,861,000 of which 57 percent were loans. Agricultural loans represent the bank's primary lending product, at 36 percent of total loans, followed by commercial loans at 35 percent. There are no financial impediments or legal or statutory constraints that would prevent the bank from meeting the credit needs of the communities within the assessment area. *Table 2* illustrates the distribution of the loan portfolio by loan type.

<b>Table 2 – Loan Distribution as of 12/31/2006</b>		
<b>Loan Type</b>	<b>Dollar Amount (\$000)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	175	2
Secured by Farmland	1,194	10
1-4 Family Residential	1,303	11
Multi-Family (5 or more) Residential	76	1
Commercial	996	8
<b>Total Real Estate Loans</b>	<b>3,744</b>	<b>32</b>
Agricultural	3,143	26
Commercial and Industrial	3,172	27
Consumer	1,552	13
Other	285	2
<b>Total Loans</b>	<b>11,896</b>	<b>100</b>

*Source: December 31, 2006 Report of Condition*

## DESCRIPTION OF ASSESSMENT AREA

The Bank of Vernon's assessment area delineation conforms to the CRA regulation. The bank's assessment area consists of Wilbarger County, which is located in northern Texas along the Oklahoma border in a non-Metropolitan Statistical Area (non-MSA). Wilbarger County consists of two middle-income and two upper-income census tracts. The county has no low- or moderate-income census tracts. The communities served within the assessment area include Vernon, Doans, Elliott, Farmers Valley, Fargo, Grayback, Harrold, Odell, Parsley Hill, Tolbert, and White City. The bank's main office is in Vernon, the county seat and largest city.

The assessment area is predominantly rural with a number of smaller farms and businesses operating within the area. The county consists of 978 square miles with a 2000 population density of 15.1 residents per square mile. The county is sparsely populated when compared to the average density in Texas of 79.6 persons per square mile. The population of Wilbarger County has decreased slightly according to the 2000 U.S. Census. The population was 14,676 in 2000 and decreased three percent since 1990. The population for the state of Texas grew 23 percent during this same period.

The population of Wilbarger County is comprised of 5,544 households and 3,820 families. Census data reflects that 36 percent of families are considered low- or moderate-income and 9 percent live below the poverty level. Sixteen percent of the population is 65 years and older, slightly higher than the ten percent average for the state of Texas. There are 6,371 housing units in Wilbarger County; 58 percent are owner-occupied, 29 percent are rental units, and 13 percent are vacant units. The Department of Housing and Urban Development (HUD) estimated that the median family income for the non-MSA was \$41,900 in 2007, down from \$43,100 in 2006.

Of the 769 farms and businesses that reported revenues to Dun & Bradstreet in 2005, 95 percent have revenues less than \$1,000,000. Of those responding to the survey, 89 percent employ nine or fewer employees and 87 percent were industries with a single location. Of those responding, 32 percent were in the service industry; 18 percent in retail trade; and 8 percent in agriculture, forestry and fishing.

The major employers in Wilbarger County include Vernon State Hospital, Wal-Mart Associates, West Texas Utilities, Wright Brand Foods, Wilbarger County Junior College, and Vernon Independent School District. Several other large and small businesses provide additional employment opportunities as well. Top industries in the county include state and local government as well as trade, transportation, and utilities. The unemployment rate in Wilbarger County as of April, 2007, was a low 2.9 percent.

In 2002, the United States Department of Agriculture (USDA) estimated that Wilbarger County was home to 502 farms covering 872,488 acres. A significant number of these farms (81 percent) are smaller farms with less than 1,000 acres. Cattle farming plays an important role in the county, 269 farms (54 percent) have cattle inventory. Primary crops harvested in the county include hay (226 farms), wheat (205 farms), cotton (79 farms), sorghum (42 farms), and peanuts (23 farms).

## **Community Contact**

A community contact interview was performed in Vernon during the evaluation. The contact was of the opinion that economic conditions in the area have improved over the last year. The contact indicated that the general credit needs of the area include home improvement and home purchase loans. According to the contact, the largest employers in the area include Tyson Foods (bacon), Texas Youth Commission, the North Texas State Hospital, and Rhodia (chemical plant). The contact listed the following local financial institutions: The Bank of Vernon, Herring Bank, Waggoner National Bank, and Citibank. The contact felt that these local banks were responsive to affordable housing, small business, and small farm credit needs in the area.

Based on the community contact interview, discussions with bank management, and a review of area demographic data, the primary credit needs of the combined assessment areas are small business loans, small agricultural loans, small dollar consumer loans, and affordable housing loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Bank of Vernon has demonstrated satisfactory performance with regards to lending activity. This conclusion is based on an analysis of the loan-to-deposit ratio, lending inside the assessment area, lending to businesses and farms of different sizes, geographic distribution of loans, and response to CRA-related complaints.

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio (LTD) of The Bank of Vernon illustrates reasonable performance. The LTD ratio is a means of measuring a bank's lending activity by comparing it to the volume of deposits held. *Table 3* presents a summary of LTD ratios for this institution and three other banks operating in surrounding areas and offering similar products. The table lists the banks in alphabetical order and no ranking is expressed or implied.

<b>Table 3 – LTD Comparison of Similarly Situated Banks</b>						
<b>Bank Name</b>	<b>City/County</b>	<b>Total Assets (\$000)</b>	<b>Total Loans (\$000)</b>	<b>Total Deposits (\$000)</b>	<b>Loan-to-Deposit Ratio 12/31/06</b>	<b>Average Loan-to-Deposit Ratio</b>
Crowell State Bank	Crowell/ Foard	22,992	15,795	20,010	78.9	70.7
First National Bank	Quanah/ Hardeman	31,706	10,031	28,677	35.0	38.2
<i>The Bank of Vernon</i>	<i>Vernon/ Wilbarger</i>	<i>20,861</i>	<i>11,823</i>	<i>16,924</i>	<i>69.9</i>	<i>49.0</i>
The First National Bank	Chillicothe/ Hardeman	37,916	23,089	33,097	69.8	64.7

*Source: December 31, 2006 Reports of Condition.*

The Bank of Vernon's average LTD is below two comparable banks but higher than the third bank. However, the table does not take into account the institution's efforts to increase lending. Over the last eighteen quarters since the last CRA evaluation, the bank's loan portfolio has grown 109 percent. The LTD ratio has steadily increased from 37.5 percent as of September 30, 2002, to 69.9 percent as of December 31, 2006. The institution's lending efforts as they relate to this performance factor are considered reasonable.

### **Lending in the Assessment Area**

The bank exhibited a satisfactory record of granting credit inside its assessment area. Examiners considered the size of the assessment area relative to the bank's asset size, office structure, and loan products reviewed when arriving at this conclusion. This factor considered all commercial and agricultural loans extended from May 1, 2006, through May 1, 2007.

As shown in *Table 4*, the bank granted a majority of its loans by number and dollar volume inside its assessment area reflecting satisfactory performance.

<b>Table 4 – Distribution of Loans Inside and Outside of the Assessment Area</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars in Loans (\$000)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Agricultural	51	76	16	24	67	734	57	544	43	1,278
Commercial	37	82	8	18	45	1,137	64	628	36	1,765
<b>Total</b>	<b>88</b>	<b>79</b>	<b>24</b>	<b>21</b>	<b>112</b>	<b>1,871</b>	<b>62</b>	<b>1,172</b>	<b>38</b>	<b>3,043</b>

Source: Bank Records

The next two lending tests were based only on those agricultural and commercial loans originated inside the bank's assessment area from May 1, 2006, through May 1, 2007. For agricultural loans, the tests are based on the random sample of 25 loans totaling \$293,941. For business loans, the tests are based on the random sample of 25 loans totaling \$661,635.

### **Lending to Businesses and Farms of Different Sizes**

The Bank of Vernon has displayed a satisfactory responsiveness in granting credit to businesses and farms of different sizes. Lending performance for agricultural loans reflects good performance and commercial loans reflects reasonable performance. This performance factor evaluates the bank's distribution of agricultural and commercial loans by gross annual revenues to determine how well the bank is serving the credit needs of these borrowers.

#### **Commercial Loans**

The Bank of Vernon has demonstrated reasonable performance in meeting the credit needs of small businesses in the assessment area. *Table 5* illustrates the bank's lending by the gross annual revenues of businesses for each revenue level. The gross annual revenues of businesses surveyed by Dun & Bradstreet (D& B) are listed for informational purposes.

As shown in *Table 5*, the bank extended 40 percent of loans by number and 18 percent by dollar volume to businesses with gross annual revenues of \$99,000 or less. The table reflects that all but two loans were extended to businesses reporting gross annual revenues less than \$1 million.

<b>Table 5 – Distribution of Commercial Loans by Revenue Level</b>					
<b>Revenue Level (\$000)</b>	<b>D&amp;B Percentage of Businesses by Revenues</b>	<b>Number of Loans</b>		<b>Dollars in Loans</b>	
		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<50	34	4	16	65,605	10
50 – 99	23	6	24	53,470	8
100 – 249	22	3	12	86,575	13
250 – 499	11	3	12	59,005	9
500 – 999	4	3	12	280,716	42
>1,000	6	2	8	69,964	11
Not Reported	0	4	16	46,300	7
<b>Total</b>	<b>100</b>	<b>25</b>	<b>100</b>	<b>661,635</b>	<b>100</b>

Source: 2005 Dun & Bradstreet Geodemographic Data and Bank Records

In a further effort to determine the bank’s success in originating small business loans, an analysis of originations by loan size was also performed. Loan size is used as a proxy for business size and is based on the assumption that smaller businesses typically require smaller loans. *Table 6* shows the bank’s lending distribution of loans to businesses by loan size within the assessment area. The table reflects that 88 percent of commercial loans were originated in amounts less than \$50,000 and 92 percent in amounts less than \$100,000.

<b>Table 6 – Distribution of Commercial Loans by Loan Size</b>				
<b>Loan Size (\$000)</b>	<b>Number of Loans</b>	<b>%</b>	<b>Dollars in Loans (\$)</b>	<b>%</b>
> 50	22	88	370,919	56
50 – 99	1	4	50,000	8
100 – 249	2	8	240,716	36
250 – 499	0	0	0	0
500 – 1,000	0	0	0	0
<b>Total</b>	<b>25</b>	<b>100</b>	<b>661,635</b>	<b>100</b>

Source: Bank records.

In respect to commercial lending, the bank has demonstrated reasonable performance in lending to businesses of all sizes within its assessment area.

## Farm Loans

The Bank of Vernon has demonstrated good performance in meeting the credit needs of small farms in the assessment area. *Table 7* illustrates the bank's lending by the gross annual revenues of farms for each revenue level. The gross annual revenues of farms surveyed by Dun & Bradstreet (D& B) are listed for informational purposes.

As shown in *Table 7*, the bank extended 44 percent of loans by number and 40 percent by dollar volume to farms with gross annual revenues of \$99,000 or less. The table reflects that no loans were extended to farms reporting gross annual revenues greater than \$1 million.

<b>Table 7 – Distribution of Farm Loans by Revenue Level</b>					
<b>Revenue Level (\$000)</b>	<b>D&amp;B Percentage of Farms by Revenues</b>	<b>Number of Loans</b>		<b>Dollars in Loans</b>	
		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<50	16	3	12	14,183	5
50 – 99	46	8	32	103,904	35
100 – 249	33	13	52	170,854	58
250 – 499	1	0	0	0	0
500 – 999	3	0	0	0	0
>1,000	1	0	0	0	0
Not Reported	0	1	4	5,000	2
<b>Total</b>	<b>100</b>	<b>25</b>	<b>100</b>	<b>293,941</b>	<b>100</b>

*Source: 2005 Dun & Bradstreet Geodemographic Data and Bank Records*

In a further effort to determine the bank's success in originating small farm loans, an analysis of originations by loan size was also performed. Loan size is used as a proxy for farm size and is based on the assumption that smaller farms typically require smaller loans. *Table 8* shows the bank's lending distribution of loans to farms by loan size within the assessment area. The table reflects that 100 percent of agricultural loans were originated in amounts less than \$50,000.

<b>Table 8 – Distribution of Farm Loans by Loan Size</b>				
<b>Loan Size (\$000)</b>	<b>Number of Loans</b>	<b>%</b>	<b>Dollars in Loans (\$)</b>	<b>%</b>
< 50	25	100	293,941	100
50 – 99	0	0	0	0
100 – 249	0	0	0	0
250 – 499	0	0	0	0
500 – 1,000	0	0	0	0
<b>Total</b>	<b>25</b>	<b>100</b>	<b>293,941</b>	<b>100</b>

Source: Bank records.

In respect to agricultural lending, the bank has demonstrated solid performance in lending to farms of all sizes within its assessment area.

The Bank of Vernon’s lending performance under this factor reflects overall satisfactory performance. The data presented, by loan and revenue size, illustrates that the bank is meeting the needs of both small businesses and farms in the area.

**Geographic Distribution of Loans**

The distribution of commercial and agricultural loans among the various census tract categories meets standards for this performance factor. Because the assessment area contains no low- or moderate-income census tracts, this performance factor was given less weight in the overall evaluation. A review of the loans inside the assessment area disclosed a reasonable distribution throughout the communities served. As would be expected, the largest distribution of loans was centered in or near communities where the bank’s office is located.

**RESPONSE TO CRA COMPLAINTS**

No complaints relating to the bank’s performance under the Community Reinvestment Act were received since the previous evaluation on September 3, 2002. As a result, this factor does not impact the bank’s performance evaluation.

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

No evidence of discriminatory or other illegal lending practices was identified. The policies of The Bank of Vernon prohibit discriminatory treatment of all customers.

## GLOSSARY

### GEOGRAPHY TERMS

**Assessment Area:** A geographic area delineated by the bank in accordance with the requirements of the Community Reinvestment Act.

**Census Tract:** A small subdivision of a county or statistical equivalent entity. Census tracts generally contain between 1,000 and 8,000 persons, and their physical size varies widely depending upon population density. Census tract boundaries do not cross county lines. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions at the time they are established.

**Metropolitan Statistical Area (MSA):** Geographies that have at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. MSA's consists of one or more counties. A MSA is a metropolitan area that is closely associated with another metropolitan area.

### INCOME TERMS

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of geography.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the 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.

### OTHER TERMS

**Dun & Bradstreet:** The Dun & Bradstreet Corporation is a provider of business and financial information drawn from a global database of more than 50 million businesses.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.