



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**April 30, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank  
Charter Number 12423**

**101 North Mount Street  
Fairfield, TX 75840**

**Comptroller of the Currency  
Dallas Field Office  
17300 Dallas Parkway Suite 2020  
Dallas, TX 75248**

**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.**

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

- First National Bank's (FNB) loan-to-deposit ratio is reasonable given the bank's size, assessment area (AA) needs, and the competitive banking market within the AA. The quarterly average loan-to-deposit ratio for the evaluation period is 45%, which is comparable to competing banks.
- FNB's lending to borrowers residing and/or operating within the AA exceeds the standards for satisfactory performance. A majority of the loans reviewed, both in number and dollar volume, are made within the designated AA. Of the loans reviewed, 91% of the number and 90% of the dollar volume are within the AA.
- FNB's lending to businesses of different sizes exceeds the standards for satisfactory performance. Of the loans reviewed, 97% were made to businesses with annual revenues of less than \$1 million.

## **DESCRIPTION OF INSTITUTION**

First National Bank is a community bank located in Freestone County, Fairfield, Texas. Fairfield is a small, mostly rural community, situated approximately 105 miles south of the Dallas/Fort Worth metroplex and approximately 150 miles north of Houston. As of December 31, 2006, FNB reported total assets of \$118 million. The bank is 100% owned by Community Bank Holdings of Texas, Inc., a two-bank holding company headquartered in Corsicana, Texas. Consolidated holding company assets totaled \$311 million as of December 31, 2006. FNB has no operating subsidiaries. FNB has two full service branches; Richland Chambers branch, which opened in 1999 and the Buffalo branch, which resulted from an acquisition in 2001. Each banking office includes an ATM and drive-up facilities that provide extended weekday and Saturday hours. There are also three off-site ATMs available within the community. The bank offers a variety of loan and deposit products and services. The primary lending focus is one-to-four family residential loans and commercial loans. The following table depicts the bank's loan mix as of December 31, 2006:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	25,580	45%
Commercial Real Estate Loans	10,586	19%
Farm Loans, including Real Estate	9,509	16%
Consumer Loans	5,520	10%
Commercial Loans	5,501	10%
<b>Total</b>	<b>56,696</b>	<b>100.00%</b>

FNB's last CRA Performance Evaluation, dated October 7, 2002, was rated *Satisfactory*. The bank has no financial or legal obstacles hindering its ability to meet the community's credit needs.

## DESCRIPTION OF FNB's ASSESSMENT AREA

FNB has one AA. The AA consists of ten Census Tracts located in a non-metropolitan statistical area that includes the city of Fairfield and its surrounding rural communities in Freestone County. It also includes the portion of Leon County that comprises the cities of Buffalo, Oakwood, Jewett, and Marquez, and the portion of Navarro County that takes in the immediate north and south side of Richland Chambers Lake. The AA meets the requirements of the CRA regulation by including whole geographies and does not arbitrarily exclude any low-or-moderate-income areas. Based on 2000 U. S. Census data, none of the CTs are designated as low-and-moderate income. The following table depicts the demographics of the assessment area:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
Population	
Number of Families	8,768
Number of Households	12,084
Geographies	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	0
% Middle-Income Census Tracts/BNA	8 – 80%
% Upper-Income Census Tracts/BNA	2 – 20%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$37,727
2006 HUD-Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	4.2%
2000 Median Housing Value	\$53,628
% of Households Below Poverty Level	18%

According to 2000 U. S. Census data, the total occupied housing units for the AA is 82%, with 63% being owner-occupied and 18% are rental-occupied. Vacant housing units total 18%. A large portion of the households within the AA are on fixed incomes. Based on 2000 U.S. Census data, 17% of the households are retired and 38% of the households receive either social security or public assistance, while 18% of the households are below the poverty level.

The major industries of the AA are energy, oil and gas production. The largest employers are Northwestern Resources, Limestone Electric and TXU. Texas Department of Criminal Justice - Boyd Unit and the Fairfield Independent School District are also major employers.

We obtained information regarding the credit needs of the AA from discussions with management and our community contact. We contacted a member of the Fairfield Chamber of Commerce during our review. Our community contact identified a strong need for affordable housing in the \$65 - \$80 thousand range. Affordable rental units, such as apartments, are also needed within the AA.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable considering the bank's size, financial condition, and assessment area credit needs and meets the standards for satisfactory performance. The LTD ratios reflect an 18-month average through December 31, 2006. FNB's average is 45%, which is in line with similarly situated banks:

<b>Institution</b>	<b>Assets (as of 12/31/06)</b>	<b>Average LTD Ratio</b>
First National Bank – Mexia	\$74,597	56.73%
Farmers State Bank – Groesbeck	\$103,128	48.64%
Citizens State Bank – Buffalo	\$205,261	46.06%
<b><i>First National Bank</i></b>	<b><i>\$117,916</i></b>	<b><i>45.07%</i></b>
State Bank of Jewett	\$34,891	36.49%

### Lending in Assessment Area

The table below reflects the distribution of FNB's residential real estate, consumer and commercial loans. Of the 1,114 loans in our sample, 91% of the number and 90% of the total dollar volume, based on origination amount, of loans were extended to borrowers residing and/or operating within the AA. Based on this analysis, the bank exceeds the standards for satisfactory performance.

<b>Lending in FNB's AA (9/30/02 – 9/30/06)</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	244	90.04	27	9.96	271	17,887	90.61	1,854	9.39	19,741
Consumer	608	89.54	64	9.43	672	6,176	88.80	775	11.15	6,951
Commercial	158	91.33	13	7.51	171	8,294	82.00	809	8.00	9,103
Totals	1,010	91.00	104	9.00	1,114	32,357	90.00	3,438	10.00	35,795

Source: Bank supplied CT data; loans originated from 9/30/02 – 9/30/06 with outstanding balances as of 9/30/06.

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB does not meet the standards for satisfactory performance for lending to borrowers of different income levels within its AA. Although the distribution of loans to businesses of different sizes exceeds the standards, the distribution of residential and consumer loans to low-income and moderate-income families is low compared to the percentage of AA families and households.

<b>Borrower Distribution of Residential Real Estate in the AA (9/30/02 – 9/30/06)</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families <sup>1</sup>	21.43%		17.47%		19.14%		41.96%	
LOANS BY PRODUCT	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	2.46%	0.69%	8.20%	3.04%	12.30%	7.99%	76.64%	88.14%

Source: Bank supplied income data; residential RE loans originated from 9/30/02 – 9/30/06 with outstanding balances as of 9/30/06.

Based on a sample of 244 residential real estate loans made within the AA, only 2.46% of the loans sampled were made to low-income families, while only 8.20% of loans were made to moderate-income families. This is attributed to an overall lack of affordable housing within the AA which resulted in a nominal number of applicants for home loans from this group. New home construction and sales within the AA are geared toward upper-income and retirees relocating from major metropolitan areas.

<b>Borrower Distribution of Consumer Loans in the AA (9/30/02 – 9/30/06)</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households <sup>2</sup>	26.21%		14.96%		17.51%		41.32%	
LOANS BY PRODUCT	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	9.21%	2.84%	10.69%	5.48%	20.23%	15.89%	59.21%	75.62%

Source: Bank supplied income data; consumer loans originated from 9/30/02 – 9/30/06 with outstanding balances as of 9/30/06.

Based on a sample of 608 consumer loans made within the AA, only 9.21% of the sample was made to low-income households compared to the percentage of AA households. However, it should be noted that based on our discussion with management there is no minimum loan

amount requirement. Also, 42% of the sampled consumer loans were extended with origination amounts of less than five thousand. The loan purpose for these loans included pay bills, school expense, vacation expense, build credit, assist family member with expenses, medical expenses, etc.; all of which indicates that FNB is meeting the needs of the low and moderate income households.

<b>Borrower Distribution of Loans to Businesses in the AA (9/30/02 – 9/30/06)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	52.87	2.86	44.27	100%
% of Bank Loans in AA by #	96.84	3.16	0	100%
% of Bank Loans in AA by \$	93.25	6.75	0	100%

*Source: Bank supplied income data; commercial loans originated from 9/30/02 – 9/30/06 with outstanding balances as of 9/30/06; Dunn and Bradstreet data.*

Based on our sample of 158 commercial loans made within the AA, 97% were made to businesses with annual revenues/sales of less than \$1 million while 93% of the total dollar volume was made to businesses with annual revenues less than \$1 million.

### **Geographic Distribution of Loans**

Based on 2000 Census data, there are no low-income or moderate-income BNAs; therefore, an analysis of the geographic distribution of loans would not be meaningful.

### **Responses to Complaints**

First National Bank has not received any consumer complaints related to its CRA performance during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.