



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

May 24, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Financial Bank, National Association  
Charter Number: 23147

2201 West South Loop  
Stephenville, TX 76401-0000

Office of the Comptroller of the Currency

FORT WORTH Field Office  
9003 Airport Freeway Suite 275  
North Richland Hills, TX. 76180-9127

**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.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

First Financial Bank, National Association, Stephenville, Texas (FFB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- The bank's loan-to-deposit (LTD) ratio is reasonable and averaged 68 percent during the evaluation period.
- A substantial majority of FFB's loans were originated within the bank's assessment area (AA).
- FFB's distribution of loans to businesses with gross revenues of less than \$1 million is reasonable. The bank's overall distribution of home mortgage products to LMI families is reasonable when considering performance context issues.
- FFB's community development (CD) performance demonstrates adequate responsiveness to the CD needs of its AA.

## **Scope of Examination**

FFB qualifies as an Intermediate Small Bank under the CRA regulation and is thus, subject to a Lending Test and CD Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities. The CD test evaluates a bank's CD lending, qualified investments, and CD services.

The evaluation under the Lending Test covers loans originated over a three year period between January 1, 2007 and December 31, 2009. Performance under the lending test was assessed based on a review of FFB's residential real estate, commercial, and commercial real estate loans. CD activities were evaluated over the period September 17, 2007 through May 24, 2010.

## Description of Institution

FFB is a community bank headquartered in Stephenville, Texas, approximately 70 miles southwest of Fort Worth, Texas. FFB is a full-service bank offering traditional products and services. In addition to its main office at 2201 W. South Loop, in Stephenville, FFB operates five (5) full-service branches and one (1) deposit-only motor bank throughout Erath, Hood, and Somervell counties. FFB operates ten (10) ATMs. All bank locations are in middle- or upper-income census tracts. There are no legal, financial or other factors impeding the bank's ability to help meet the credit and community development needs in its AA.

FFB is a wholly-owned subsidiary of First Financial Bankshares, Inc. (FFIN), a multi-bank holding company headquartered in Abilene, Texas. FFIN owns nine other banks operating in Central, West, and North Texas. Consolidated holding company assets totaled \$3.4 billion as of March 31, 2010.

FFB reported total assets of \$341 million and total liabilities of \$296 million as of March 31, 2010. Total loans of \$185 million represent 58 percent of total assets. The following chart details the composition of FFB's loan portfolio, as of March 31, 2010.

<b>Loan Portfolio Composition as of March 31, 2010</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Real Estate	68,559	38.6
Commercial & Industrial	46,976	26.4
Residential Real Estate	25,799	14.5
Consumer & Other	22,231	12.5
Farm & Agricultural Real Estate	14,300	8.0
<b>Total</b>	<b>\$177,865</b>	<b>100.0</b>

*Source: March 31, 2010 Report of Condition*

FFB received an overall rating of "Satisfactory" during its previous CRA examination dated September 17, 2007, utilizing Intermediate Small Bank CRA Procedures.

## Description of Assessment Area

FFB has designated Erath, Hood, and Somervell counties as its AA. The AA comprises 14 census tracts: zero low-income, zero moderate-income, seven middle-income, and seven upper-income census tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies.

The following table provides basic demographic information based on the income level of census tracts and families within the AA.

<b>Demographic and Economic Characteristics of Assessment Area</b>	
<b>Population</b>	
Total Population	80,910
Number of Families	22,107
Number of Households	31,139
<b>Geographies</b>	
Number of Census Tracts	14
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	0.0%
% Middle-Income Census Tracts	50.0%
% Upper-Income Census Tracts	50.0%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$36,380
2009 HUD-Adjusted MFI	\$45,600
<b>Economic Indicators</b>	
Unemployment Rate	3.54%
2000 Median Housing Value	\$81,052
% Households Below Poverty Level	12.45%

*Source: 2000 Census data and 2009 HUD updated income data.*

Based on 2000 U. S. Census data, the AA area has a total population of 80,910. According to 2009 demographic data, there are 45,762 housing units in the AA, of which 50 percent are owner-occupied, 18 percent are renter-occupied and 11 percent are vacant. Approximately 12 percent of the families in the AA are considered low-income. Moderate-income families approximate 16 percent of the population, and middle- and upper-income families comprise 19 percent and 53 percent of the population, respectively.

Based on 2009 business demographic data, there are 10,141 non-farm businesses in the AA. Of these businesses, 76 percent reported gross annual revenue less than \$1 million and 2 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 22 percent or 2,188 businesses did not report revenues.

Approximately 77 percent of businesses have less than ten employees. Sixteen percent of businesses did not report employee size. The largest employer in Stephenville is Tarleton State University, employing approximately 900 employees. Other large employers in Erath County include St. Gobain Abrasives, Stephenville ISD, and FMC Technologies. The largest employer in Granbury is the Granbury ISD. Other large employers in the assessment area include Walmart, Hood County, and Barnett Shale (oil and gas) related businesses.

There are 545 farm businesses in the AA. Of these businesses, 97 percent reported gross annual revenue less than \$1 million and 3 percent reported gross annual revenue equal to or greater than \$1 million.

Dairy farming is one of the larger industries in Erath County. In 2006, the State of Texas approved \$11.1 million in funding to build the Southwest Regional Dairy Center in Stephenville. The Dairy Center will be operated within the infrastructure of Tarleton State University (TSU), part of the Texas A & M University System. The Center's mission will be to provide teaching, research, and service/outreach programs to meet the need of higher education, the dairy industry and society in Texas and the southwest. An advisory committee composed of representatives of the dairy industry, related non-profit organizations, and TSU will provide input to overall guidance and direction of the program. A & M will also be participating in this project. The Center should be open in the next year, and it will bring industry partners, scholars and students into the bank's AA to participate in the project.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the Lending Test is rated "**Satisfactory**".

Small business lending is the bank's primary business line, and therefore more weight was given to small business lending than to home mortgage lending when evaluating lending performance under the performance criteria detailed below.

### Loan-to-Deposit Ratio

FFB's LTD ratio is reasonable and meets the standard for satisfactory performance. The bank's LTD ratio averaged 68 percent over the 10 quarters since the last CRA examination. During the evaluation period, the LTD ratio ranged from a low of 60 percent as of December 31, 2009 to high of 73 percent as of March 31, 2008.

FFB sells a significant portion of its home mortgage and student loan originations to secondary market investors. For the years 2007 through 2009, the bank originated \$62 million in home mortgage loans, which were sold to secondary market investors. Student loans originated in 2007 through 2009 sold to the secondary market totaled \$16 million. These loans, if retained, would contribute to a higher LTD ratio.

### Lending in Assessment Area

FFB's lending in its AA reflects excellent performance. A substantial majority of the number and dollar amount of the home mortgage and small business loans were originated inside the bank's AA. As depicted in the table below, 95.0 percent of the number and 96.5 percent of the dollar amount of loans were originated in FFB's AA.

<b>Table 1 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential R/E	19	95.0%	1	5.0%	20	\$2,823,603	98.0%	\$58,900	2.0%	\$2,882,503
Commercial & Commercial R/E	19	95.0%	1	5.0%	20	\$1,508,895	93.8%	\$100,088	6.2%	\$1,608,983
<b>Totals</b>	<b>38</b>	<b>95.0%</b>	<b>2</b>	<b>5.0%</b>	<b>40</b>	<b>\$4,332,498</b>	<b>96.5%</b>	<b>\$158,988</b>	<b>3.5%</b>	<b>\$4,491,486</b>

Source: Data collected by bank.

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

The distribution of loans made to borrowers of different income levels and business of different sizes reflects reasonable penetration and meets the standard for satisfactory performance. To perform our analysis we reviewed residential mortgage loan data and commercial loan data collected by the bank. Each product type was weighted equally in this evaluation. More detail on lending performance of each of the products is discussed below.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Erath Co., Hood Co., Somervell Co. AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	12.34	10.0	15.52	5.0	19.39	20.13	52.75	65.0

Source: Loan sample; U.S. Census data.

FFB's overall distribution of home mortgage loan products is satisfactory, particularly when considering that low-income families have a difficult time qualifying for conventional home mortgage products. Twelve percent of the population in the AA lives below the poverty level.

Initially, we conclude FFB's distribution of home mortgage loan products to low- and moderate-income families reflects poor penetration. The percentages of the number of bank loans made to these families are less than the percentages of low- and moderate-income families in the AA. However, community contacts performed during this examination and MLS activity in the area indicate a significant lack of quality affordable housing. Compounding the problem is the purchase and rehabilitation of quality affordable housing by local investors, and subsequent rentals of these properties to the college student population. Performance in this area may not improve until the inventory of quality affordable housing increases.

FFB offers two in-house affordable residential mortgage lending programs. These programs target applicants who make less than 80 percent of the median income for the AA. The programs have flexible down payment and closing costs. Since the prior CRA examination, the bank has had very little activity with management citing borrower's inability to qualify as the predominant reason.

FFB's willingness to provide credit to its AA is evidenced, in part, by the number of small consumer loans originated during our evaluation period. Management reports that there is no minimum loan amount in the loan policy. For the years 2007, 2008, and 2009 the

bank made 13 loans with originating balances of \$1,000 or less, with the lowest loan amount being \$335.56.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Erath Co., Hood Co., Somervell Co. AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.05%	2.38%	21.58%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	75.40%	24.60%	0.00%	100%

*Source: Loan sample; Dunn and Bradstreet data.*

FFB's borrower distribution of small business loans is satisfactory. Loans to businesses with revenues of \$1 million or less represented 85 percent of business loans, exceeding the 76 percent of area businesses that reported revenues of less than \$1 million.

The bank has begun offering small business loans through the ARC Loan Program, part of the American Recovery and Reinvestment Act of 2009. ARC loans are intended for small businesses that in the past were profitable but are currently struggling. ARC loans can be made up to \$35 thousand and can be used to make payments of principal and interest, in full or part, on one or more existing, qualifying, small business loans for up to six months. ARC loans are interest free to the borrower, carry a 100 percent SBA guarantee to the lender, and require no fees paid to SBA. Loan proceeds are provided over a six-month period and repayment of the ARC loan principal is deferred for twelve months after the last disbursement of the proceeds. Repayment can extend up to five years. Currently, FFB has made 47 ARC loans totaling \$1.6 million.

A review of the bank's geographical distribution of loans was not performed. There are no LMI geographies within the 2000 U.S. Census data.

## **Responses to Complaints**

There have been no consumer complaints relating to the bank's Community Reinvestment Act performance during the evaluation period.



## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the Community Development Test is rated **"Satisfactory"**.

### **Number and Amount of Community Development Loans**

FFB did not originate any CD loans.

### **Number and Amount of Qualified Investments**

Qualifying investments include investments, deposits, membership shares, or grants that have as their primary purpose CD. CD in investment activity is satisfactory. During the evaluation period FFB made qualified investments totaling \$432 thousand. FFB's most significant qualified investment was a \$391 thousand investment in a CRA qualified investment fund. The fund, similar to a mutual fund, invests solely in community development securities and allows investors to earmark their investment in CRA-qualifying projects within the bank's AA. FFB's investment in the fund is directed to loan pools comprised of mortgage loans made to LMI borrowers in Texas and a broader geographic area, revenue bonds that will provide financial support for ongoing unemployment benefits, including the various programs of the Texas Workforce Commission, and medical facilities that serve as the hub for healthcare services. Additionally, FFB made a \$38 thousand contribution to the United Way of Erath, Hood, and Somervell Counties and a \$3 thousand contribution to the Foster's Home for Children in Stephenville.

### **Extent to Which the Bank Provides Community Development Services**

The level of CD services provided reflects adequate responsiveness. FFB is active in the community and provides services that benefit LMI individuals and families.

FFB's AA does not contain any LMI census tracts. Management is able to reasonably ensure that its banking services, including low-cost checking accounts, are available to LMI individuals, with branches and ATMs located throughout the AA. The main bank is located in Stephenville; in addition to the main, the bank operates a full service branch with an ATM, a motor bank with an ATM, and a stand-alone ATM in Stephenville. The bank's other locations include three (3) full service branches with ATMs in Granbury and a full service branch with two (2) ATMs in Glen Rose, and an ATM in Walnut Springs. Business hours and services are convenient and are accessible to all segments of the AA.

FFB employees are active in various organizations throughout the communities it serves; they volunteer time and serve in advisory roles on various community

development and non-profit organizations that benefit LMI families. During the evaluation period, the bank conducted a financial literacy seminar targeted to LMI individuals in the assessment area. The seminar was facilitated by bank staff in conjunction with the Habitat for Humanity group in Stephenville. The seminar was designed to educate participants on the fundamentals of borrowing money from a bank.

Many of FFB's products are not targeted to LMI families but it does offer an affordable home purchase program. This program is designed to help borrowers who would not qualify for traditional mortgages to purchase homes. During the evaluation period, no mortgage loans were originated using this program. Bank management feels that this is due to many borrowers obtaining more favorable financing through FFB's mortgage company, as well as the shortage of quality affordable housing in the AA. This shortage is exacerbated by the large population of Tarleton State University students in the community. Community contacts interviewed in Stephenville during this examination confirmed these facts, citing 1-4 family home mortgage lending and small business lending as the most pressing credit needs in the AA.

## **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.