



SMALL BANK

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

PUBLIC DISCLOSURE

January 11, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Huntsville
Charter Number 4208**

**1300 11th Street
Huntsville, TX 77340**

**Comptroller of the Currency
Houston Field Office
1301 McKinney Street, Suite 3410
Houston, TX 77010-9010**

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 of Huntsville (FNB) is responsive to the credit needs of its community, including low- and moderate-income individuals in its assessment area (AA). The following factors support this conclusion:

- Overall lending to borrowers of different incomes meets the standards for satisfactory performance. Consumer lending to moderate-income borrowers exceeds the characteristics of the AA.
- The geographic distribution of loans meets the standards for satisfactory performance. It is similar to the characteristics of the AA.

DESCRIPTION OF INSTITUTION

FNB is a \$260 million full service bank located in Walker, Houston, and Madison Counties. The bank has a main office at 1300 11th Street in Huntsville and three branches. One branch is located in Huntsville at 130 Colonel Etheredge Boulevard. Another branch, Crockett Bank, is in Crockett, Texas at 617 East Houston Avenue. The most recent branch is The Bank of Madisonville acquired through a merger on October 15, 2004 located in Madisonville, Texas at 333 North May Street. This bank was rated satisfactory at its most recent CRA examination dated October 27, 2003. FNB has two Motor Banks and a total of five automated teller machines (ATMs) in Huntsville, a Motor Bank and an ATM in Crockett, and a Motor Bank and ATM at its Madisonville location. FNB offers a full range of credit products in its assessment area including consumer loan products, commercial, residential real estate, and student loans. The primary loan products are residential real estate and consumer as of the evaluation date; however, commercial and agriculture loan demand is growing. There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs of the AA. FNB was rated satisfactory at the prior examination dated July 19, 1999.

Please refer to FNB's CRA public file for more information about the bank.

DESCRIPTION OF WALKER, HOUSTON, AND MADISON COUNTIES

All three counties in the AA are currently not in a Metropolitan Statistical Area. All three are adjacent counties. Combined information for Walker, Houston, and Madison Counties from 2003 reflects an unemployment rate of 3%, a weighted average median housing value of \$61 thousand, and an updated median family income of \$41.2 thousand.

Walker County

Walker County has a population of 62 thousand including more than 13 thousand inmates in Texas prisons. Huntsville, Texas is the largest city with a population of approximately

35 thousand that includes 5 thousand students of Sam Houston State University and 8 thousand prison inmates. The university was founded in 1879, and it contributes an estimated \$115 million annually to the local economy. The Texas Department of Criminal Justice (TCCJ) has a significant presence in Huntsville with five prisons in the city limits. A major employer, TDCJ, has a payroll of approximately \$17 million per month. Other cities in the county include New Waverly and Riverside. Walker County is located near Lake Livingston and is surrounded by the Sam Houston National Forest. The county covers 790 square miles.

Major employers in 2004 include the TDCJ with 6,744 employees, Sam Houston State University with 2,458 employees, and Huntsville Independent School District with 974 employees. All other major employers have less than six hundred employees, and they include Huntsville Memorial Hospital, Wal-Mart, Educational Service Center Region VI, City of Huntsville, Gulf Coast Trades Center, Walker County, Weatherford, Gardner Glass, and Home Depot. Chamber of Commerce information lists six banks and two credit unions located in Huntsville that directly compete for loans and deposits with FNB.

We reviewed community contacts completed during the evaluations of other area banks and met with a local homebuilder actively involved in affordable housing. He identified affordable housing for low-income people as a primary credit need and spoke favorably of local banks.

Houston County

Houston County is located in the heart of Davy Crockett National Forest. Recent population estimates show 23 thousand for the county and 7 thousand for the City of Crockett, the county seat and largest city. Chamber of Commerce information lists six banking associations in Crockett that complete directly with the bank.

Major employers in 2004 include Vulcraft (Steel Fabrication) with 330 employees, Crockett Independent School District with 320 employees, Crockett State School with 305 employees, and East Texas Medical Center with 220 employees. Other employers in the area have less than 100 employees.

Madison County

Madison County became part of the bank's assessment area after a merger with The National Bank of Madisonville in October of 2004. There are two other banks in Madisonville, Texas.

Madisonville is the largest city in Madison County with an approximate population of 4,234 in 2002. Madison County had approximately 13,290 residents in 2002. Major employers are the Texas Department of Criminal Justice (772 employees), Monterey Mushrooms, Inc. (574 employees), and Madisonville Consolidated Independent School District (285 employees). Recently, DaSilveria Southwest, Inc. who manufactures metal stalls and pens for the dairy industry has relocated to Madisonville from New Mexico. Local economic conditions are expected to improve with the expansion of State Highway 21 from a two-lane to a four-lane highway. It will become four-lanes from the home of Texas A & M University in Bryan/College Station, Texas to Interstate 45, and it will be a short distance north of Madisonville. The county's economy is based on ranching, mineral production, and manufacturing.

Please refer to FNB's CRA public file for more information about the bank.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on lending in Walker and Houston Counties. We did not review lending in Madison County based on the recent merger, data not available, and a recent CRA examination of the bank. In Walker and Houston Counties, we focused on the two most significant areas of lending, residential real estate lending and consumer lending. At September 30, 2004, residential loans were \$23.5 million or 26% of the loan portfolio of \$92 million, and they were 15% of the total number of loans. Consumer loans were \$30.4 million or 33% of the dollar total, but they were 52% of the number of loans.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable. The quarterly average since the prior examination of July 19, 1999 is 43%. Management regularly compares its ratio to a group of thirteen competing area banks. The competing bank's ratios range from a low of 33% to a high of 88% with an average of 62% at September 30, 2004. At that date, FNB's ratio was 44%. Most of these competing banks are smaller in asset size and have a smaller percentage of public funds than FNB. The bank regularly has significant public funds deposits not available for lending. At September 30, 2004, public funds on deposit at the bank were \$17 million.

Lending in Assessment Area

Lending in the AA is a majority and meets the standards for satisfactory performance both in number (85%) and dollar amount (77%) of loan originations. We used bank provided information of all loans originated in 2003 and 2004 except for the fourth quarter of 2003 in Walker County that was not available to form our conclusions. Performance in each loan category is shown in the following table:

Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	393	80	100	20	493	17,244	71	6,957	29	24,191
Consumer	3,249	85	562	15	3,811	24,938	82	5,546	18	30,484
Totals	3,642	85	662	15	4,304	42,182	77	12,503	23	54,675

Source: bank information for 2003 and 2004.

Lending to Borrowers of Different Incomes

Lending to borrowers of different incomes meets the standards for satisfactory performance. Lending in 2003 and 2004 was compared to 2000 census information, and lending in 2002 was compared to 1990 census information. We used the same bank provided information as we used for lending in the assessment area for 2003 and 2004. For 2002, information was only available by loan category for Houston County. The bank's performance in residential real estate lending is shown in the following table:

Table 2A - Borrower Distribution of Residential Real Estate Loans in AA								
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
2003/2004	19	5	16	11	20	23	45	61
2002	22	7	16	0	16	0	46	93

Source: data collected by the bank; U.S. Census data.

Although below the characteristics of the assessment area, the analysis does not reveal a lack of lending to low- and moderate-income borrowers. The lending level is reasonable considering the opportunities for lending based on the availability and cost of owner occupied homes. In addition, management actively seeks loan originations to low- and moderate-income borrowers and has participated in two programs through the Federal Home Loan Bank of Dallas (FHLB). The Economic Development Program Small Business Grant resulted in a grant to a bank customer who builds affordable housing in Huntsville, Texas. This program helps low- and moderate-income borrowers purchase a home by subsidizing the builder. The Homebuyer Equity Leverage Partnership is a matching down payment plan to increase home ownership in the area by low- and moderate-income borrowers. The bank is approved by FHLB and has been working to qualify borrowers under this plan. Also, the bank has offered home buying workshops to local residents.

We used the same bank provided information to analyze consumer lending as we used for residential real estate lending. The bank's performance is shown in the following table:

Table 2B - Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
2003/2004	26	27	15	30	17	21	42	22
2002	29	15	13	23	15	26	43	36

Source: data collected by the bank; U.S. Census data.

Lending to low-income borrowers in 2003 and 2004 is similar to the characteristics of the AA, and it exceeds the characteristics in lending to moderate-income borrowers. In 2002, lending to moderate-income borrowers exceeds the characteristics of the assessment area. Overall, the pattern of lending to low- and moderate-income borrowers meets the standards for satisfactory performance.

FNB originates a significant number of student loans each year. For example, for the period January 1, 2004 through Jan 31, 2005, the bank originated \$14.6 million in subsidized loans based on financial need, \$11.7 million in unsubsidized loans, and \$2.1 million in parent loans for student education.

Geographic Distribution of Loans

The geographic distribution of loans meets the standards for satisfactory performance. Walker and Houston Counties do not have any low-income census tracts. In 2003 and 2004, each county had one moderate-income tract. In 2002, Walker County had one moderate-income tract, and Houston County had two moderate-income tracts. All other census tracts were middle or upper.

Residential real estate lending is similar to the characteristics of the assessment area. We used the same bank provided information as with the analysis of lending to borrowers with different incomes. The bank's performance is shown in the following table:

Table 3A - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
2003/2004	0	0	7	7	54	46	39	47
2002	0	0	16	20	43	30	41	50

Source: data collected by bank; U.S. Census data.

The geographic distribution of consumer lending is the same as the characteristics of the assessment area in moderate-income census tracts for both period as shown below:

Table 3B - Geographic Distribution of Consumer Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
2003/2004	0	0	9	9	58	47	33	44
2002	0	0	21	21	42	36	37	43

Source: data collected by bank; U.S. Census data.

Responses to Complaints

FNB did not receive any consumer complaints regarding its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.