



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**October 27, 2008**

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

The First National Bank of Bellville  
Charter Number 4241

100 East Main Street  
Bellville, TX 77418

Office of the Comptroller of the Currency

Houston Field Office  
1301 McKinney Street, Suite 1410  
Houston, TX 77010-3031

**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 COMMUNITY REINVESTMENT ACT (CRA) RATING:  
This institution is rated Outstanding.**

The major factors supporting the institution's rating are:

- The borrower distribution of consumer loans exceeds the characteristics of the assessment area in lending to both low- and moderate-income borrowers and shows excellent penetration.
- The borrower distribution of residential real estate loans is near to the characteristics of the assessment area in lending to low-income borrowers and exceeds in lending to moderate-income borrowers.
- The geographic distribution of loans to businesses and residential real estate loans exceeds the characteristics of the assessment area in moderate-income census tracts. Lending for these two loan products shows excellent dispersion.

**SCOPE OF EXAMINATION**

We completed a full-scope review of the bank's CRA activities in the designated assessment area. Our review was focused on the three primary loan products of owner-occupied residential real estate, loans to businesses, and consumer loans.

Management collected income and census tract location of all residential real estate loans in compliance with the Home Mortgage Disclosure Act. The bank is located in the Houston–Sugar Land-Baytown Metropolitan Statistical Area (MSA). Although not required to collect the information as a small bank, management also collected gross revenue information for loans to businesses and income information on borrowers for consumer loans. We reviewed management's information, worked with management to ensure correct information, and verified the final information reliability. For those loans that were possibly located in moderate-income census tracts, we obtained the borrower's address and verified the census tract location. Therefore, our review was completed using gross revenue, income, and census tract location if in a moderate-income census tract information for the three primary loan product originations for 2006, 2007, and year-to-date 2008. As detailed in Table 1 below, this was a total of 1,359 loans originated in the assessment area.

**DESCRIPTION OF INSTITUTION**

The First National Bank of Bellville (FNB) is owned by Industry Bancshares, Inc. (IBI) located in Industry, Texas. Affiliate banks owned by IBI include Industry State Bank, Fayetteville Bank, and Citizen's State Bank; all small community banks located in Texas. FNB has a main office location in Bellville, Texas and a branch office in Waller, Texas, opened in March 2008. FNB was chartered in 1890 and is one of the oldest continually chartered banks in Texas. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its assessment area.

As of June 30, 2008, the bank had \$190 million in assets and a Tier One Leverage Capital ratio of 7.77 percent. The loan portfolio represents 46 percent of total assets. The primary business focus is residential real estate lending at 42 percent and business lending at 29 percent of the loan portfolio. Other loan products include farm-related loans of 16 percent and construction and land development of 14 percent. Consumer lending represents only 8 percent of the loan portfolio; however, the number of consumer loan originations is significant, accounting for approximately 43 percent of total loan originations. Finally, other loan products represent 5 percent of the loan portfolio. FNB received an Outstanding rating at the prior examination dated January 13, 2003.

*Please refer to the bank's Public File for additional information.*

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The bank's assessment area (AA) is wholly in Texas and includes all five census tracts (CTs) in Austin County and six CTs in Waller County. Also, the AA includes four of the southern tracts in Grimes County and 20 CTs in northwest Harris County. The AA does not have any low-income CTs. Austin County has one moderate-income CT in the area of the cities of Sealy and Wallis. Waller County has two moderate-income CTs with one in the city of Waller where the branch is located and one in Brookshire, Texas. Grimes County has one moderate-income CT in the city of Navasota. According to the 2000 U.S. Census, the AA has a population of approximately 454 thousand with the majority living in northwest Harris County. Of the total population, about 6 percent live below the poverty level and 14 percent receive social security benefits. Of the 164 thousand housing units in the AA, 72 percent are owner-occupied. The Housing and Urban Development updated median family income is \$56,484 in 2008 for the AA.

An OCC Community Affairs Officer completed a community contact for this examination. The officer spoke with a local Small Business Development Center serving the three counties of Washington, Austin, and Colorado. The contact identified opportunities for local financial institutions as community development, other credit-related projects, or financing programs. Small business lending is a primary FNB product. Also, we identified one community development loan during our review discussed later in this Evaluation.

### Austin County

Austin County was the bank's original AA area prior to the opening of the Waller branch in March 2008. According to the U.S. Census Bureau, the county population is estimated to be 26 thousand in 2008. Bellville is the county seat and has an estimated population of 4 thousand. The city is approximately 63 miles east of Houston, Texas.

Competition is moderate with four financial institutions located in Bellville. Major employers are the Bellville Independent School District, the medical community including the Bellville General Hospital, and local government.

### Waller County

According to the U.S. Census Bureau, the county population was estimated to be 35 thousand in 2006. Because of its close proximity to Harris County and Houston, Texas, Waller County had the third highest employment growth in the Houston-Sugar Land - Baytown MSA from 1990 to 2003. Igloo Corporation is the area's major employer with a recent expansion of almost 800 additional jobs, for a total expansion of 5 thousand jobs.

Hempstead is the county seat and is located close to Texas A & M University in College Station and Prairie View A & M University. U.S. Highway 290 provides easy access from Hempstead to Houston, approximately 50 miles away. The bank's branch is in the city of Waller, located partially in Waller County and partially in Harris County. It is approximately 45 miles west of Houston. The City of Waller has a small job base, but ample job opportunities in Houston are a short drive away.

### Harris County

Harris County has the most potential for loan growth. Harris County is the largest county in Texas and the third largest in the nation. The population is 3.9 million based on a 2007 U.S. Census Bureau estimate with a growth rate of 15 percent since the 2000 Census. It is the third most populous county in the United States. The 2006 U.S. Census Bureau shows an unemployment rate of 7.5 percent and 16 percent of the population lives below the poverty level. The median family income in 2006 was \$53,779. The county seat is Houston which is the largest city in Texas and the fourth largest city in the nation.

Houston has the largest medical center in the world, the Texas Medical Center. The Center's economic impact exceeds \$10 billion annually, and it has approximately 61 thousand employees. Also, Houston is second only to New York City in Fortune 500 company headquarters, and more than 5 thousand energy-related firms are located in the city. Major employers include Continental Airlines, Administaff, Halliburton, Wal-Mart Stores, Exxon Mobil, Kroger Company, Memorial Hermann Healthcare System, and The University of Texas Medical Branch, all with more than 13 thousand employees each.

Banking competition is intense. The largest competitors in the county include: JP Morgan Chase Bank, National Association (N.A.), Bank of America, N.A., Wells Fargo Bank, N.A., and Amegy Bank, N.A.

### Grimes County

This county has the least potential for loan growth in the bank's AA. According to the U.S. Census Bureau, the county population was estimated to be 26 thousand in 2006. Major employers include the Anderson Shiro Independent School District, Auxi Healthcare Service, Grimes County, and the Navasota Independent School District. Agriculture continues to be a major part of the area's economic base.

*Please refer to the bank's Public File for additional information.*

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is more than reasonable. The bank’s quarterly loan-to-deposit ratio average since the prior examination is 65.81 percent and exceeds peer group ratios. We compared the bank’s ratio to several peer groups of small banks with less than \$250 million in assets. First, we compared the ratio to a peer group of small banks in Austin, Grimes, Colorado, and Harris County. There were no banks headquartered in Waller County that could be used for comparison. This peer group ratio was 54.91 percent. Next, we compared the bank’s ratio of 65.81 percent to all banks regardless of asset size in Austin, Grimes, and Colorado County excluding Harris County since the Waller Branch was opened recently. This peer group ratio was 46.85 percent. Finally, we compared the bank’s ratio to a group of small banks with assets less than \$250 million in Austin, Grimes, and Colorado County and excluding Harris County with a ratio of 42.59 percent. The bank’s ratio exceeds all three peer groups.

### Lending in Assessment Area

Lending in the AA is a majority as shown in the following table:

Table 1 - Lending in FNB Bellville Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Res. Real Estate	119	90.15	13	9.85	132	12,471	91.62	1,141	8.38	13,612
Business	242	82.59	51	17.41	293	41,427	73.01	15,314	26.99	56,741
Consumer	998	86.63	154	13.37	1,152	9,317	83.45	1,848	16.55	11,165
Totals	1,359	<b>86.17</b>	218	13.83	1,577	63,215	<b>77.55</b>	18,303	22.45	81,518

Source: Data reported under HMDA, Data collected by bank.

In addition, we found during discussions with senior management that most loans originated outside the AA were based on prior and continuing relationships with customers, family members residing in the bank’s AA, and other similar reasons.

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

Overall, lending to borrowers of different incomes and to businesses of different sizes shows excellent penetration.

We compared owner-occupied residential real estate loan originations to the 2000 U.S. Census characteristics of the AA. Lending to low-income borrowers is near the characteristics of the AA. Lending to moderate-income borrowers exceeds the characteristics and shows excellent penetration. The bank’s performance is shown in the following table:

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Assessment Area</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
Res. Real Estate	11.54	<b>10.08</b>	12.73	<b>22.69</b>	19.32	21.01	56.41	44.54

*Source: Data reported under HMDA; U.S. Census data. Income information was not available for 1.68% of the bank’s originated loans.*

We compared the bank’s business loan originations to the characteristics of the AA according to current Dunn and Bradstreet information. By number, loan originations to businesses with \$1 million or less in gross revenue slightly exceeds the characteristics and shows reasonable penetration. By dollar, loan originations are less than the characteristics of the AA. Our analysis revealed FNB has several large borrowers, including a local utility provider, with large loan origination amounts causing this comparator to be low. We based our conclusion of reasonable penetration on the number of loans. The bank’s performance is shown in the following table:

<b>Table 2A - Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69.65	3.68	26.67	100%
% of Bank Loans in AA by #	<b>71.08</b>	15.70	13.22	100%
% of Bank Loans in AA by \$	<b>38.35</b>	50.79	10.86	100%

*Source: Data collected by the bank; Dunn and Bradstreet data.*

We compared the borrower distribution of consumer loans originated in the AA to the 2000 U.S. Census characteristics of the AA. Lending to low- and moderate-income borrowers exceeds the characteristics of the AA and shows excellent penetration. The bank’s performance is shown in the following table:

<b>Table 2B - Borrower Distribution of Consumer Loans in Assessment Area</b>								
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
Consumer	12.31	<b>40.18</b>	12.11	<b>27.45</b>	17.05	15.93	58.53	9.93

*Source: Data collected by the bank; U.S. Census data. Income information was not available for 6.51% of the bank’s originated loans.*

### Geographic Distribution of Loans

Overall, the bank’s originations of loans in three of the four moderate-income census tracts exceed the characteristics of the AA and shows excellent dispersion. Loans were not originated in the moderate-income tract of Grimes County. This tract has only twelve housing units, three households, and no businesses according to 2000 U.S. Census information. Therefore, lending opportunities are very limited.

We compared the owner-occupied residential real estate loan originations to the 2000 U.S. Census characteristics of the AA. Lending in moderate-income CTs exceeds the characteristics of the AA and shows excellent dispersion. The bank’s performance is shown in the following table:

Table 3 - Geographic Distribution of Residential Real Estate Loans in Assessment Area								
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
Res Real Estate	0.00	0.00	3.62	<b>7.56</b>	32.13	91.60	64.25	0.84

Source: Data reported under HMDA; U.S. Census data.

We compared the bank’s business loan originations to the characteristics of the AA according to current Dunn and Bradstreet information. The number of loan originations exceeds the characteristics of the AA in moderate-income CTs and shows excellent dispersion. The bank’s performance is shown in the following table:

Table 3A – Geographic Distribution of Loans to Businesses in Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business Loans	0.00	0.00	3.45	<b>7.85</b>	40.04	*	56.51	*

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

\*The remaining 92.15% of business loans were originated in middle or upper-income census tracts.

We compared consumer loan originations to the 2000 U.S. Census characteristics of the AA. Lending in moderate-income CTs is near the characteristics and shows reasonable dispersion. The bank’s performance is shown in the following table:

Table 3B - Geographic Distribution of Consumer Loans in Assessment Area								
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
Consumer Loans	0.00	0.00	3.89	<b>3.61</b>	36.65	*	59.45	*

Source: Data collected by bank; U.S. Census data. NA census tracts are 0.01%.

\*The remaining 96.11% of consumer loans were originated in middle or upper-income census tracts.

### Community Development Loans

During our review, we identified one loan with a community development purpose. Officers originated a loan of \$469 thousand in April 2007 to build a facility for the Bellville Boys and Girls Club. The Club has operated for several years using Bellville Independent School District facilities. The building is within walking distance of the junior high and high school. Elementary school children are transported a short distance by bus after school. The Club’s mission is *“To enable all young people, especially those who need us most, to reach their full potential as productive, caring, responsible citizens.”*

### Qualified Investments and CD Services

During this Evaluation, management originated qualified donations to organizations with a community development purpose of \$2 thousand.

In addition, management has implemented programs and provided services with a community development purpose as follows:

- A flexible and innovative “Fresh Start” program. Customers with overdrafts are allowed to convert the overdraft to an interest free loan with a payout of 120 days. At October 31, 2008, the bank had 16 loans with a total of \$10 thousand outstanding.
- A one-month loan extension with a fee of only \$25 to provide relief to those affected by Hurricane Ike. Normally, the fee for a month extension is one month’s interest. Since most customers requesting an extension have real estate loans, this \$25 fee is significantly less. The bank had a total of twenty customers who requested an extension.
- The bank does not charge origination fees or discount points on residential real estate loan originations.
- The provision of an online Credit Education Center that customers may access is funded by the bank. Records show a reasonable level of use.
- A bank officer serves as a board member for the Sealy Tax Increment Reinvestment Zone, and officers serve on local economic development boards of directors.

### **Responses to Complaints**

The bank did not have any CRA-related complaints during the 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.