



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 17, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 17324

409 South Ellis
Groesbeck, Texas 76642

Office of the Comptroller of the Currency

San Antonio Field Office - North
10001 Reunion Place, Suite 250
San Antonio, Texas 78216-4133

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 “Outstanding.”

First National Bank’s (FNB) lending performance reflects an outstanding responsiveness to community credit needs. The following highlights the bank’s performance.

- The loan-to-deposit ratio (LTD) is more than reasonable given the bank’s size, financial condition, and assessment area (AA) credit needs. FNB’s LTD ratio has averaged 70% from September 2003 to June 2008.
- A large majority of FNB’s loans have originated within its AA.
- Borrower distribution data reflects an excellent penetration to low- and moderate-income (LMI) consumers and families.
- The bank’s AA includes only middle-income census tracts; therefore, an analysis of geographic distribution would not be meaningful.
- There have been no complaints with respect to FNB’s performance under the Community Reinvestment Act (CRA).

SCOPE OF EXAMINATION

We evaluated FNB’s CRA performance under the small bank procedures since our prior evaluation dated September 13, 2003. The Lending Test review focused on 1-4 family residential real estate and consumer loan originations from January 1, 2006 through September 30, 2008. We focused our review on these primary loan products since they represent over 71% of the total loan portfolio as of June 30, 2008.

DESCRIPTION OF INSTITUTION

FNB opened in 1982. It is a locally owned and operated community bank with total assets of \$49.6 million, as of June 30, 2008. The bank’s primary emphasis is providing local banking services to the predominantly rural area of southern Limestone County, which is 40 miles east of Waco, Texas. Lending efforts are focused on residential real estate, consumer, agricultural, and small business loans. FNB has one office and one automated teller machine (ATM) in its AA. The office is located at 409 South Ellis Street in Groesbeck, Texas, and the ATM is located in the drive-through area. Groesbeck is the county seat of Limestone County.

FNB’s earning asset mix consists of 71% loans and 29% investment securities. The bank’s lending focus has remained consistent since the June 30, 2003 evaluation. The following table provides a breakdown of the bank’s loan mix as of June 30, 2008.

Loan Category	\$ (000)	%
Real Estate (RE) Residential (1-4)	12,764	39.0
Consumer	10,512	32.1
RE Agricultural and Production	5,299	16.2
RE Commercial and Industrial	3,435	10.5
Construction	501	1.5
RE Multifamily	124	.4
Other	77	0.30
Total	32,712	100%

DESCRIPTION OF ASSESSMENT AREA

FNB's AA consists of three census tracts covering the southern half of Limestone County. Two of the census tracts are categorized as middle-income and one is categorized as an upper-income tract based on 2000 census data. The city of Groesbeck is centrally located in the AA and is situated in an area where oil and gas exploration, cattle ranching and coal mining are the major economic drivers. Due to increased oil and gas exploration and production, as well as increased coal mining, the area has experienced solid economic growth and increases in population. Growth has been experienced in the Mexia and Groesbeck areas and the Lake Limestone area. The local economy is supported by Reliant Energy Power Generation Facility, Northwest Resources mining lignite coal for the power plant, and oil and natural gas exploration and production. Other major employers in the community are the Groesbeck Independent School District and the county government offices. Specific demographic data for the AA is listed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA	
<i>Population</i>	
Number of Families	2,624
Number of Households	3,602
<i>Geographies</i>	
Number of Census Tracts	3
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	66%
% Upper-Income Census Tracts	33%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$39,800
2008 HUD-Adjusted MFI	\$41,800
<i>Economic Indicators</i>	
Unemployment Rate	4.9%
2000 Median Housing Value	\$52,013
% of Households Below Poverty Level	16.19%

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a local community development agency director and the local president of the Chamber of Commerce. Both contacts stated that FNB is active in the community and responsive to local credit needs.

A review of FNB's lending practices revealed no evidence of illegal discrimination. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Based on its financial condition, resources, the local economy, product offerings, and competition, FNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder the bank's ability to provide credit in its AA. FNB received an "Outstanding" rating at its previous CRA examination conducted in September 2003.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management is performing in an outstanding manner in meeting the credit needs of the AA, including LMI individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

FNB's LTD ratio exceeds the standard for satisfactory performance given its asset size, financial condition, and the lending opportunities within its AA. The average LTD ratio over the twenty quarters since the last examination was 73.9%. To better understand the bank's performance, we conducted an LTD analysis on three other banks that compete with FNB in and around its AA. The average LTD ratios for these banks ranged from 46.2% to 57.1%. Citizens State Bank merged with another bank since the last examination and its LTD ratio increased compared to the prior examination.

Institution	Assets As of 06/30/2006	Average LTD Ratio%
Farmers State Bank, Groesbeck	108,576	46.2
Citizens State Bank, Buffalo	208,809	46.3
First National Bank, Mexia	71,934	57.1
First National Bank, Groesbeck	35,674	73.9

Lending in Assessment Area

A large majority of FNB's loans have been extended within its AA. We performed an analysis of lending patterns within the AA using internal reports provided by management and county maps. These reports include loans that were originated since our last examination. This analysis indicates that 90% of the number and 97% of the dollar amount of total loans were made within FNB's AA.

TOTAL LOANS REVIEWED								
	<i>In Assessment Area</i>				<i>Out of Assessment Area</i>			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
I-4 Family Residential	18	90	1,255	98	2	10	29	2
Consumer	18	90	155	89	2	10	19	11
Total Loans	36	90.0	1,410	97	4	10.0	48	3

Lending to Borrowers of Different Incomes

The loan distribution to individuals with different income levels within the AA is excellent. Our review included a sample of twenty residential loans and twenty consumer loans. The results indicate that lending activity to LMI families exceeds the demographic characteristics of the AA for consumer loans and meets the demographics for moderate-income borrowers for residential lending. The bank said that many other sources of loans from mortgage companies were very competitive in residential lending to low-income borrowers and contributed to the decline in residential loans to this group compared to the numbers at the previous CRA review. The details of our review are reflected in the following tables.

CONSUMER								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
% of AA Households	24.4%		12.8%		18.4%		44.4%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	22.2	13.5	27.8	24.3	27.8	35.7	22.2	26.3

RESIDENTIAL REAL ESTATE								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
% of AA Families	19.2%		16%		20.4%		44.4%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	5.5	1.05	22.2	11.2	11.1	5.1	61.1	82.6

Geographic Distribution of Loans

The bank's AA is comprised of two middle-income and one upper-income census tracts. Therefore, an analysis of the geographic distribution of loans would not be meaningful.

Responses to Complaints

No CRA or unresolved consumer complaints have been identified since our prior examination.

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.