



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 12, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Whitney
Charter Number 13649

307 N. Brazos Street
Whitney, TX 76692-0000

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.

First National Bank in Whitney's (FNB) lending performance reflects satisfactory responsiveness to its community's credit needs. This assessment is based on the following conclusions:

- FNB's average loan-to-deposit ratio is reasonable given its size, financial condition, local competition, and assessment area credit needs.
- A majority of FNB's loan activity is within its assessment area.
- The distribution of loans demonstrates reasonable penetration among individuals of different income levels.

SCOPE OF EXAMINATION

FNB is a consumer-oriented financial institution. The consumer portfolio represents only 25.7% of the dollar volume of total loans. However, this portfolio represents 85% of the total number of loans extended, indicating a large number of small dollar loans. FNB has two other significant product lines; general commercial and industrial loans, and commercial real estate loans. These portfolios contain fewer loans at higher amounts and there were not a sufficient number of loans in these portfolios to draw reasonable samples. Our samples included;

- 20 loans from the general consumer portfolio.
- 20 loans from the consumer auto portfolio.

We omitted loans from the above samples if they were outside of the assessment area, and replaced them with loans inside the assessment area when assessing the ***Lending to Borrowers of Different Incomes***, and ***Lending to Businesses of Different Sizes*** components. There were no low- or moderate-income geographies in the assessment area; so, a ***Geographic Distribution of Loans*** analysis would not be meaningful. The loans included in the sample originated between January 1, 2007 and March 31, 2011, and were selected at random.

DESCRIPTION OF FIRST NATIONAL BANK IN WHITNEY

FNB is a community bank located in Whitney, Texas, which is about 60 miles south of Fort Worth, Texas. The bank operates from the main facility in downtown Whitney and a branch facility in nearby Laguna Park. The bank also provides an Automated Teller Machine (ATM) located at the main facility. FNB is a subsidiary of Baylor Bancshares, Inc. (Baylor), which is a multi-bank holding company. Other banks in the holding company include Memphis State Bank, First National Bank of Seymour, and Citizens State Bank of Princeton. All of these banks are small community banks located in the state of Texas. The holding company also owns 100% of Baylor Mortgage Company, Inc., an operating subsidiary. The corporate structures of FNB or the holding company have not changed since the prior CRA examination.

FNB is a full-service community bank offering a wide variety of loan and deposit products. As of March 31, 2011, FNB has total assets of \$58.4 million, total loans of \$10.9 million, and total deposits of \$52.9 million. The following table presents the loan information as of March 31, 2011.

| Loan Category | \$ (000) | % |
|--|--------------------|--------------|
| Commercial Real Estate | \$3,531 | 32.5% |
| Consumer Loans | \$2,784 | 25.7% |
| Commercial | \$2,330 | 21.5% |
| Agricultural Production/Other Agricultural | \$1,841 | 16.9% |
| Residential Real Estate | \$347 | 3.2% |
| Other Loans | \$18 | 0.2% |
| Total Loans | \$10,851.00 | 1.00% |
| Total Loans as a % of Total Assets | 18.6% | 1.01% |

FNB has a conservative credit underwriting policy. A large portion of the customer base is comprised of elderly members of the community who have their life savings on deposit with the bank. They view the bank as a safe place to have these deposits because of the well-known conservative lending standards and perceived low level of risk in the bank.

Primary competition comes from five other national and state-chartered community banks located in and near the bank's assessment area. There are also several branch facilities of regional and national-sized banks located near the assessment area.

Secondary competition is offered by several non-bank institutions in the area. Remote competition is posed by financial institutions in nearby Fort Worth, Texas and Waco, Texas.

The most recent CRA examination was performed as of December 11, 2006 with a satisfactory rating assigned to the bank. There are no legal or financial impediments to FNB's ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA (PARTS OF BOSQUE AND HILL COUNTIES)

FNB defines its assessment area as seven whole and contiguous census tracts (CTs) straddling the line between Bosque and Hill Counties. The assessment area is not part of any Metropolitan Statistical Area. The assessment area is legal and meets the requirements of the Act. Approximately 17,052 persons live within the assessment area. All CTs are designated as middle-income geographies. There are no low- or moderate-income CTs in the assessment area.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE ASSESSMENT AREA | |
|--|----------|
| Population | |
| Number of Families | 5,013 |
| Number of Households | 6,984 |
| Geographies | |
| Number of Census Tracts (CTs) | 7 |
| % Low-Income CTs | 0.00% |
| % Moderate-Income CTs | 0.00% |
| % Middle-Income CTs | 100% |
| % Upper-Income CTs | 0.00% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | \$36,380 |
| 2010 HUD-Adjusted MFI | \$46,500 |
| Economic Indicators | |
| Unemployment Rate | 2.61% |
| 2002 Median Housing Value | \$58,351 |
| % of Households Below Poverty Level | 13.39% |

The primary credit needs of the community center around start-up housing and general consumer credit. The economy is largely dependent on the tourism industry from the recreational activities associated with nearby Lake Whitney. No other significant industry exists. There are no community development opportunities to participate in at this time. The general state of the local economy is stable. Unemployment levels have remained low and stable the last few years. Major employers in the area include Whitney ISD, the local hospital, city and county governments and a local grocery store and masonry business. We did not identify any unmet credit needs.

We considered information from a community leader whom we interviewed as part of this examination. According to this contact, all banks in Whitney have a positive image, are involved in the community, and corporately meet the community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity since the previous CRA examination, dated December 11, 2006. We used loan information, borrower income, and assessment area data provided by the bank and tested it for accuracy. We selected samples from the consumer auto and general consumer loan portfolios to evaluate the bank's lending performance within the assessment area. (Refer to the **SCOPE OF EXAMINATION** section for details.) For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** we replaced loans originated outside of the assessment area with loans originated inside the assessment area.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. We used average LTD ratios for each quarter-end since the 2006 CRA examination to determine performance in this area. The average LTD ratio for FNB since the last CRA examination was 19.5%. The assessment area and surrounding counties contain 28 other state and national institutions with which to compare FNB. The average LTD ratios, for the same period, of these institutions ranged from 25% to 101%. While the average LTD ratio initially appears low, the fact that FNB is a consumer lender is a mitigating factor. FNB's heavy volume of low dollar loans, conservative lending philosophy, and local competition contribute to the low LTD ratio. As reported earlier, FNB's niche is consumer lending, and FNB is reporting approximately 43% of the number of loans have an originating balance of \$1,500 or less. The bank's smallest loan originated at just \$115.00. These facts support the reasonableness of FNB's LTD ratio, and the bank's satisfactory efforts to meet the credit needs of the communities served.

Lending in Assessment Area

FNB's lending within the assessment area meets the standards for satisfactory performance.

This section quantifies what portion of the bank's lending activity was within its assessment area. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own assessment area, would be considered less than satisfactory. A majority of FNB's lending efforts are concentrated within the designated assessment area.

To assess FNB's performance, we used the samples described above. Based on our sample results, a majority of loans were originated within the designated assessment area. The following table reflects the results of our assessment of FNB's efforts to lend within its assessment area.

| TOTAL LOANS REVIEWED | | | | | | | |
|-----------------------------|--|---------------------------|--------------|--------------|-------------------------------|-----------|--------------|
| | | IN ASSESSMENT AREA | | | OUT OF ASSESSMENT AREA | | |
| LOAN TYPE | | # | % | \$ (000s) | % | # | % |
| General Consumer | | 12 | 60% | \$34 | 86% | 8 | 40% |
| Consumer Auto | | 13 | 65% | \$115 | 68% | 7 | 35% |
| Total Reviewed | | 25 | 62.5% | \$149 | 75.3% | 15 | 37.5% |
| | | | | | | | 24.7% |

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

FNB's loan distribution to the different household and family income levels meets the standards for satisfactory performance.

To assess FNB's efforts, we used the samples described above. In some instances FNB obtains and analyzes applicant income information during the loan decision process. However the majority of loans sampled did not have this information available. We were able to access and use other internal records to determine borrower income information. Also, FNB does not have a minimum loan amount in policy. We reviewed the loan trial and noted a significant number of loans for \$1,000 or less (the lowest was \$115.00), and noted an additional number of other credits between \$1,000 and \$1,500. As noted earlier, approximately 43% of the loan portfolio is represented by loans with originating balances of \$1,500.00 or less. These combined facts indicate FNB is meeting the credit needs of the community.

| Borrower Distribution of General Consumer Loans | | | | | | | | |
|--|---------------------------|------------------------|---------------------------|------------------------|---------------------------|------------------------|---------------------------|------------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of # of Loans | % of AA Households | % of # of Loans | % of AA Households | % of # of Loans | % of AA Households | % of # of Loans |
| Consumer Loans | 23% | 20% | 14% | 15% | 18% | 25% | 45% | 10% |

30% of the number and 7% of the dollar amount did not have income information in the loan file.

| Borrower Distribution of Consumer Auto Loans | | | | | | | | |
|---|---------------------------|------------------------|---------------------------|------------------------|---------------------------|------------------------|---------------------------|------------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of # of Loans | % of AA Households | % of # of Loans | % of AA Households | % of # of Loans | % of AA Households | % of # of Loans |
| Consumer Loans | 23% | 35% | 14% | 15% | 18% | 15% | 45% | 5% |

30% of the number and 36% of the dollar amount did not have income information in the loan file.

Geographic Distribution of Loans

A geographic distribution analysis would not be meaningful as there are no low- or moderate-income geographies in the assessment area.

Responses to Complaints

FNB has not received any CRA related complaints 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.