

PUBLIC DISCLOSURE

June 7, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Canadian
Charter Number 6826**

**200 Main Street
Canadian, Texas 79014**

**Office of the Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289, Suite 108
Lubbock, Texas 79424**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the bank'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 bank. Upon conclusion of such examination, the agency must prepare a written evaluation of the bank's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Canadian** prepared by the **Office of the Comptroller of the Currency**, the bank's supervisory agency, as of June 7, 1999. The agency rates the CRA performance of a bank consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

BANK'S CRA RATING: This bank is rated **Satisfactory**.

The following highlights the bank's performance:

- ! The loan-to-deposit ratio, at 32.10% as of June 7, 1999, is reasonable given the bank's size, financial condition, capacity to lend, and assessment area credit needs. The ratio has averaged 26.04% for the nine quarters since December 1996.
- ! A majority of loans and other lending related activities are in the bank's assessment area.
- ! The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.
- ! A rating of the geographic distribution of loans would not be meaningful because the assessment area does not include any low- or moderate-income census tracts.
- ! The bank has received no complaints about its performance in meeting assessment area credit needs.

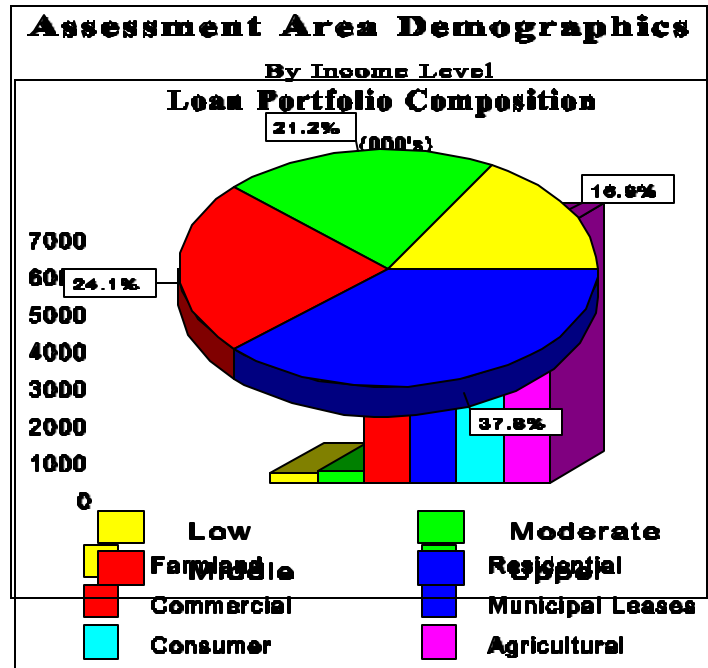
The following table indicates the performance level of The First National Bank of Canadian with respect to each of the five performance criteria.

SMALL BANK ASSESSMENT CRITERIA	<u>The First National Bank of Canadian</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans	An analysis of the geographic distribution of loans would not be meaningful.		
Response to Complaints	No complaints have been received since the last examination.		

DESCRIPTION OF BANK

The First National Bank of Canadian (FNB) is a \$54 million bank, with two locations, the main office in Canadian, Texas and a full service branch in Higgins, Texas. The bank does not own an automatic teller machine (ATM). Deposit products include certificates of deposit, demand deposit accounts, savings, NOW, and Money Market Deposit Accounts. Loan products include agricultural, business, real estate, and consumer loans. A breakdown of the loan portfolio by purpose is shown in Figure 1.

There are no legal or financial impediments that interfere with the bank's ability to make credit available in the assessment area. This evaluation covers the period from the prior performance evaluation, dated October 15, 1996. The bank received a satisfactory rating at the prior evaluation.



DESCRIPTION OF ASSESSMENT AREA

The Board of Directors has designated Hemphill and Lipscomb Counties in Texas and Ellis County, Oklahoma as the FNB's assessment area. These counties are not located within a Metropolitan Statistical Area (MSA). The assessment area meets the requirement of the Community Reinvestment Act (CRA) and does not arbitrarily exclude low- or moderate-income geographies. The 1990 census reflects a combined population, for the three counties, of 11,360. Canadian, Texas, Higgins, Texas and Shattuck, Oklahoma are the largest cities in the assessment area.

The median family income according to the 1990 census for Texas is \$24,586. The 1998 HUD updated median family income for the assessment area is \$33,450. The assessment area contains eight census tracts, six middle-income and two upper-income tracts. It does not contain any low- or moderate-income tracts.

Figure 2 shows the demographics of the assessment area by income levels. The largest sector of the population is upper income families.

The economic base of the assessment area comes from oil and gas production, cattle, and agriculture production. The Economic Development Council in Canadian, Texas has decided to concentrate its effort to expand the existing businesses and to attract tourism in this area.

The assessment area, according to census information, has approximately six thousand available housing units with only 23% of these units being rental units. Twenty five percent of available housing units are vacant.

Retail sales are considered stable, and have not suffered significantly from the recent decline in oil prices. Real estate agents in the area also report that the real estate market has not experienced deterioration from the recent decline in the oil prices. The county unemployment level is highly dependent on the local agricultural and oil and gas industries. Major employers in the area are the Canadian Independent School District, Correctional Services Corporation and King Well Servicing, Incorporated.

Several community contacts were made in conjunction with this examination. These contacts identified the following credit needs; (1) a lack of housing for low-to-moderate income families, including assistance programs, (2) consumer credit counseling, and (3) small start-up technology-based business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The loan-to-deposit ratio, at 32.10% as of June 7, 1999, is reasonable given the bank's size, financial condition, capacity to lend, and assessment area credit needs and the local economy. The ratio has averaged 26.04% for the nine quarters since December 1996.

There are four (4) stand alone community banks, not including FNB, within the bank's AA. All four banks are similarly situated and offer traditional loan products. These banks report loan-to-deposit ratios ranging from a high of 82.10%, occurring March 31, 1999, to a low of 28.31%, occurring June 30, 1997. FNB's loan to deposit ratios range from a high of 33.28%, occurring March 31, 1999, to a low of 21.18%, occurring March 31, 1997.

FNB's deposit base includes a significantly high level of deposit accounts from public funds and insider relationships. Although the insider deposits are considered core, these depositors have limited credit needs. Both the public funds and the insider deposits negatively impact the loan-to deposit ratio.

Lending in the Assessment Area

A majority of loans funded are within the assessment area. Based on an analysis of the loan portfolio (segregated by zip codes) as of June 7, 1999, 82% percent of the number of loans and 55% of the dollar volume of loans were to borrowers residing or operating within the assessment area.

Loans to Borrowers of Different Incomes and Businesses of Different Sizes

FNB's loan distribution reflects a reasonable penetration among borrowers of different income levels. Table 1 shows the loan composition to the different income levels.

Income Level	Assessment Area	Loan Composition
Low	16.9%	32.4%
Moderate	21.2%	27.0%
Middle	24.1%	16.3%
Upper	37.8%	24.3%

Table 1

Source: Bank Records

Additionally, the sample of fifteen commercial and agriculture loans reviewed revealed that a substantial majority were extended to entities with annual gross revenues of less than \$1 million per year.

Geographic Distribution of Loans

We did not perform a geographical distribution analysis of lending patterns throughout the assessment area because the area does not contain any low- or moderate-income census tracts. The assessment area contains eight census tracts, six middle-income and two upper-income tracts.

Response to Complaints

The bank has received no complaints about its performance in meeting assessment area credit needs.

Record of Compliance with Antidiscrimination Laws

We performed a fair lending review using procedures outlined within the OCC's Fair Lending Booklet, dated October 1997. The fair lending review focused on loans that were for the purchase of a vehicle. A comparative file review based on a combined approach was conducted with specific emphasis upon the potential for discrimination based on gender. We compared loan terms and interest rates on this group of loans. We identified no violations of the substantive provisions

of the antidiscrimination laws and regulations. In addition, the bank's internal procedures for prevention and/or detection of possible discrimination were reviewed. These procedures include a second review of approved and denied loans. Internal procedures were found to be effective in preventing discrimination.