



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 21, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Huntsville
Charter Number: 4208

1300 11th Street
Huntsville, TX 77340-0000

Office of the Comptroller of the Currency

Houston Field Office
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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 RATING:
This institution is rated Satisfactory**

**The Lending Test is rated: Satisfactory.
The Community Development Test is rated: Outstanding.**

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

- FNB originates a substantial majority of its loans within its AAs.
- Overall lending to borrowers of different income levels meets the standards for satisfactory performance ranging from lower than the ratio to near the ratio. Consumer lending to moderate-income borrowers is near to the characteristics in the Walker, Houston, Madison, Leon, and Trinity Counties AA. Borrower distribution of residential real estate lending is good in both AAs.
- The geographic distribution of loans in the Walker, Houston, Madison, Leon, and Trinity Counties AA meets the standards for satisfactory performance. Lending to borrowers in moderate-income tracts exceeds the characteristics of the AA.
- FNB's Community Development performance demonstrates excellent responsiveness to Community Development needs.

Scope of Examination

FNB was evaluated under the Intermediate Small Bank examination procedures, which include the Lending Test and Community Development Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. Our examination evaluated the bank's lending performance from January 1, 2008 through March 19, 2011. The Community Development Test evaluates the bank's responsiveness to needs and opportunities within the community. Community Development performance was evaluated from January 12, 2005 through March 19, 2011.

The bank's primary loan products are business, farm, and consumer loans. Business and residential real estate loans are the largest products by dollar volume, while consumer loans are the largest product by number.

FNB is a Home Mortgage Disclosure Act (HMDA) reporter. All residential loans originated from January 1, 2008 through December 31, 2010 were included in our analysis. The bank is not required to report business and consumer loan data under the Community Reinvestment Act (CRA) regulation. A Data Integrity Review, performed prior to the CRA examination, confirmed reliable bank-collected data. We selected a statistically valid sample of these products using reports of loan originations.

Description of Institution

FNB is a \$392 million full service community bank headquartered in Huntsville, Walker County, Texas. The bank has one main office and nine branch offices located throughout Walker, Houston, Madison, Leon, Trinity, and Robertson Counties. Six locations are in Huntsville, Texas; two branches in Crocket, Texas; one branch in Madisonville, Texas; and the most recent branch opened in June 2008, in Franklin, Texas. FNB offers a full range of credit products in its AAs including consumer loan products, commercial loans, residential real estate, and student loans. There are no legal or financial impediments to the bank's ability to meet the credit and Community Development needs of its AAs. The bank was rated Satisfactory at its last CRA examination dated January 11, 2005.

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

Description of Assessment Area(S)

FNB has two AAs described below. The Walker, Houston, Madison, Leon, and Trinity Counties are combined into one AA, because the tracts in these counties are contiguous and are not a part of a Metropolitan Statistical Area (MSA). The Robertson County AA is part of the Bryan-College Station, TX MSA.

Walker, Houston, Madison, Leon, and Trinity Counties AA (Non-MSA AA)

The population is 121,365, including 28,158 families. There are 27 census tracts, of which four are moderate-income, 20 are middle-income, and three are upper-income. There are no low-income census tracts. All middle-income tracts are designated distressed due to poverty levels, with the exception of the tracts in Leon County which are designated under-served due to its remote rural location. A total of 58.5 percent of the housing units are owner-occupied, and 20.9 percent are renter-occupied. The Housing and Urban Development (HUD) updated median family income in 2010 was \$46,500, 2009 was \$45,600, and 2008 was \$43,600. A total of 18.1 percent of the households are below the poverty level. Per the U.S. Bureau of Labor Statistics, 2010 unemployment rates by county are as follows: Walker 7.6 percent, Houston 9.8 percent, Madison 7.9 percent, Leon 7.8 percent, and Trinity 8.8 percent.

Major employers in the area include the Texas Department of Criminal Justice and Sam Houston State University. Other major employers include local school districts and manufacturing companies. The bank's main competitors in the AA include, but are not limited to, First Victoria National Bank, First Financial Bank, and Compass Bank.

During the examination, we contacted two local organizations from different counties in the AA. Both contacts indicated credit needs in the AA were related to affordable housing.

Robertson County AA

The Robertson County AA is in the Bryan-College Station MSA. The population of Robertson County is 16,000, including 4,356 families. There are five census tracts, of which two are moderate-income and three are middle-income. There are no low-income census tracts. A total of 56.2 percent of the housing units are owner-occupied, and 22.3 percent are renter-occupied. The HUD updated median family income for 2010 was \$57,000, 2009 was \$56,100, and 2008 was \$51,000. A total of 21.4 percent of the households are below the poverty level. Per the U.S. Bureau of Labor Statistics, the 2010 unemployment rate for Robertson County is 8.6 percent.

Major employers in the area include Big Creek Construction, Sanderson Farms, Inc., and local school districts. Texas A&M University, located in nearby Brazos County, also has large numbers of people from Robertson County on its payroll. Per the Hearne Chamber of Commerce, Robertson County has recently become a hotbed of oil and gas exploration, drilling, production, and distribution activities, with several oil and gas pipelines being built in the county. The bank's major competitors in the AA include, but are not limited to, CitiBank NA, Wells Fargo Bank NA, Prosperity Bank, and First Victoria National Bank.

During the examination, we contacted a local community organization. This contact indicated credit needs in the AA were related to affordable housing.

Conclusions with Respect to Performance Tests

FNB's CRA performance is Satisfactory. Our review focused on lending in both AAs; however, we placed more emphasis on lending in the Non-MSA AA, because it is where a majority of the bank's branches are located, and its deposit and loan activity. We did not place heavy reliance on the Robertson County AA due to the relatively recent opening of the branch in June 2008. Additionally, as of the evaluation date, the bank made only \$6 million loans in Robertson County, which represents 4.3 percent of total net loans.

In the Non-MSA AA, we focused on the three most significant areas of lending; consumer, residential real estate, and business lending. At December 31, 2010, consumer loans total \$33 million or 23 percent of the loan portfolio of \$141 million, and they were 57 percent of the total number of loans. Residential real estate loans were \$43 million or 31 percent of the dollar total, and they were 20 percent of the number of loans. Business loans were \$54 million or 38 percent of the dollar total, and they were 17 percent of the number of loans.

LENDING TEST

The Lending Test is rated Satisfactory. FNB's loan-to-deposit ratio is reasonable. A substantial majority of the bank's loans were originated inside the AA. Loan penetration to low- and moderate-income borrowers is reasonable and geographic dispersion in low- and moderate-income census tracts is also reasonable.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable. FNB's quarterly average since the prior examination of January 11, 2005 is 49 percent. We compared the bank's quarterly average to competing banks. The competing bank ratios ranged from a low of 42 percent to a high of 75 percent, with an average of 59 percent for the same evaluation period. It is important to note that most of the competing banks differentiate in asset size and have a smaller percentage of public funds than FNB. FNB regularly has significant public funds on deposit not available for lending. At December 31, 2010, public funds on deposit at the bank were \$39 million or 11 percent of total deposits. FNB's loan-to-deposit ratio, net of public funds, is 54 percent. The bank's ratio is comparable to other banks in the AA and is considered reasonable.

Lending in Assessment Area

Lending in the AAs represents a majority of bank lending activity and meets the standards for satisfactory performance both in number, 83 percent, and dollar amount, 81 percent, of loan originations. HMDA data for all residential real estate loans originated between 2008 and 2010 was considered in this analysis. Also considered in the analysis was information provided by the bank for all consumer and business loans originated between January 1, 2008 and March 19, 2011.

A sample of 20 loans was selected for each loan type in each AA. For the Robertson County AA, there were only six residential real estate loans and four business loans made during the evaluation period. Performance in each loan category is shown in the following table:

Table 1 - Lending in Walker, Houston, Madison, Leon, Trinity, and Robertson Counties										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Res RE Purchase	243	81.54	55	18.46	298	28,906	79.48	7,462	20.52	36,368
Res RE Refinance	87	79.09	23	20.91	110	11,730	82.06	2,564	17.94	14,294
Res RE Imprv.	40	95.24	2	4.76	42	1,271	97.62	31	2.38	1,302
Consumer	36	90.00	4	10.00	40	353	78.27	98	21.73	451
Business	21	87.50	3	12.50	24	835	81.94	184	18.06	1,019
Totals	427	83.07	87	16.93	514	43,095	80.65	10,339	19.35	53,434

Source: Data reported under HMDA; sample of loans.

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

The distribution of loans reflects a reasonable penetration among households and families of different income levels and businesses of different sizes, given the bank's product offerings and local economic conditions.

Residential Real Estate

The distribution of residential real estate loans reflects a reasonable penetration given the demographics. We analyzed residential real estate lending using borrower income compared to the median family income levels according to information from the U.S Census Bureau. The 2010 median family income for the Non-MSA AA was \$46,500, and for Robertson County AA it was \$57,000.

The distribution of residential real estate loans for the Non-MSA AA reflects reasonable lending to families of different income levels.

- For home purchase loans, the bank's performance in lending to low-income families is below the demographic comparator. However, lending to moderate-income families is near to the demographic comparator.
- For home refinance loans, the bank's performance in lending to low- and moderate-income families is significantly below the demographic comparators. However, we took into consideration that after the downturn in the housing market, the combined issues of lower home values and stricter credit requirements have made it more difficult to qualify low- and moderate-income individuals for traditional home products.
- For home improvement loans, the bank's performance in lending to low-income families is below the demographic comparator. However, lending to moderate-income families exceeds the demographic comparator and reflects excellent penetration.

The bank's performance is shown in the following table:

Table 2A - Borrower Distribution of Residential Real Estate Loans Walker, Houston, Madison, Leon, and Trinity Counties AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans						
Purchase	19.86	4.62	17.16	12.18	20.77	19.33	42.21	63.03
Refinance	19.86	1.15	17.16	4.60	20.77	16.09	42.21	78.16
Home Imprv.	19.86	7.69	17.16	20.51	20.77	10.26	42.21	58.97

Source: Data reported under HMDA; U.S. Census data. Income not available for 0.84% and 2.56% of the loan data for home purchase and home improvement loans, respectively.

The distribution of residential real estate loans for Robertson County AA reflects reasonable penetration of lending to families of different income levels. There were only six loans made during the evaluation period of 2008 thru 2010. Although there is no lending to low-income borrowers, two of the loans were made to moderate-income families and reflects excellent penetration. The bank's performance is shown in the following table:

Table 2B - Borrower Distribution of Residential Real Estate Loans in Robertson County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans						
Purchase	30.65	0.00	18.50	20.00	20.98	0.00	29.87	80.00
Refinance	30.65	0.00	18.50	100.00	20.98	0.00	29.87	0.00
Home Imprv.	30.65	0.00	18.50	0.00	20.98	0.00	29.87	0.00

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

Consumer Lending

The level of lending to consumers of different incomes demonstrates a reasonable penetration. We analyzed consumer lending using borrower income compared to the median household income levels according to U.S. Census Bureau information. The 2009 median household income for the Non-MSA AA was \$31,271, and for Robertson County AA it was \$29,672.

The level of lending to consumers in the Non-MSA AA reflects a reasonable penetration. Lending to low-income households is significantly lower than the characteristics of the AA; however, lending to moderate-income households is near to the characteristics of the AA. The bank's performance is shown in the following table:

Table 2C - Borrower Distribution of Consumer Loans Walker, Houston, Madison, Leon, and Trinity Counties AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	24.86	5.26	16.05	10.53	17.46	26.32	41.63	52.63

Source: Loan sample; U.S. Census data. Income not used in credit decision in 5.26% of the loan sample.

The level of lending to consumers in the Robertson County AA reflects poor penetration. There was no lending to low-income households; and, lending to moderate-income households is significantly below the characteristics of the AA. We discussed with bank management the poor penetration to borrowers with low- and moderate-income. Bank management stated that Robertson County is a rural area with intense banking competition. The city of Franklin, where FNB is located, is also served by First Star Bank, Wells Fargo, NA, and Farmers State Bank. In addition, each town within Robertson County has its own community bank that has been serving the area for many years, compared to FNB that has been in the area for a relatively short period of 2.5 years. We considered the time it takes for a bank to matriculate into a small community. We reviewed a deposit market share report for Robertson County and found that FNB is ranked fourth out of the four banks located in Franklin, TX. FNB has 5 percent of the deposit market share. The number one bank in the county has 52 percent of the deposit market share. FNB is active in the community and supports organizations in the Franklin market, including and among others, the Robertson County Fair, Habitat for Humanity, and lending and investment opportunities that focus on the low- and moderate-income community. The bank’s performance is shown in the following table:

Table 2D - Borrower Distribution of Consumer Loans in Robertson Bend County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	30.15	0.00	13.58	5.56	15.51	22.22	40.76	72.22

Source: Loan sample; U.S. Census data.

Small Business Loans

The bank’s performance in lending to small businesses with gross revenues equal to or less than \$1 million is reasonable. We compared the bank’s loan originations to the size of businesses for each AA according to Dunn & Bradstreet information. Lending to small businesses with gross revenues equal to or less than \$1 million for the Non-MSA AA is near the characteristics of the AA at 63.16 percent of the 72.17 percent reporting businesses. The dollar amount originated is below the characteristics of the AA at 39.85 percent. We noted the bank made two Small Business Administration loans during the evaluation period. The bank’s performance is shown in the following table:

Table 2E - Borrower Distribution of Loans to Businesses in Walker, Houston, Madison, Leon, and Trinity Counties AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.17	2.21	25.62	100%
% of Bank Loans in AA by #	63.16	26.32	10.52	100%
% of Bank Loans in AA by \$	39.85	53.76	6.39	100%

Source: Loan sample; Dunn and Bradstreet data.

In the Robertson County AA, there were only four business loans originated. Revenue information was not obtained for two loans as loan approval was not based on revenues. The number of loans originated with gross revenues equal to or less than \$1 million is reasonable at 50 percent of the 75.56 percent reporting businesses. The loans by dollar amount are below the characteristics of the AA at 24.44 percent.

Table 2F - Borrower Distribution of Loans to Businesses in Robertson County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.56	1.32	23.12	100%
% of Bank Loans in AA by #	50.00	0.00	50.00	100%
% of Bank Loans in AA by \$	24.44	0.00	75.56	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

The overall geographic distribution of the bank’s loans is satisfactory considering the demographics of the bank’s two AAs. There are no low-income census tracts in either AAs. Therefore, we focused on lending in moderate-income census tracts. Our review also included identifying the loans originated in census tracts designated as distressed or under-served by the Federal Financial Institutions Examining Council. Our review did not reveal any conspicuous gaps in lending in both AAs.

Performance in the Walker, Houston, Madison, Leon, and Trinity Counties AA

Our analysis revealed an excellent dispersion throughout the census tracts of different income levels, including the middle-income tracts designated as distressed and under-served.

Residential Lending

Residential loan originations show that lending in moderate-income census tracts is near to the characteristics of the AA and indicates reasonable dispersion.

- For home purchase loans, the bank’s performance of lending in moderate-income tracts is near to the demographic comparator. In addition, approximately 44 percent of the loans were made in middle-income tracts.
- For home refinance loans, the bank’s performance of lending in moderate-income tracts is slightly below the demographic comparator. However, approximately 31 percent of the loans were made in middle-income tracts.
- For home improvement loans, the bank’s performance of lending in moderate-income tracts exceeds the demographic comparator. Approximately 26 percent of the loans were made in middle-income tracts.

The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Residential Real Estate Loans Walker, Houston, Madison, Leon, and Trinity Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Purchase	0.00	0.00	13.39	10.08	65.04	44.12	21.57	45.80
Refinance	0.00	0.00	13.39	6.90	65.04	31.03	21.57	62.07
Home Imprv.	0.00	0.00	13.39	15.39	65.04	25.64	21.57	58.97

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

Consumer Lending

Consumer loan originations show that lending in moderate-income census tracts also exceeds the characteristics of the AA and shows excellent dispersion. Lending in middle-income tracts represents 39 percent of loan originations during the evaluation period. The bank’s performance is shown in the following table:

Table 3B - Geographic Distribution of Consumer Loans Walker, Houston, Madison, Leon, and Trinity Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	0.00	0.00	13.39	22.22	65.04	38.89	21.57	38.89

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

Business Lending

Business loan originations in moderate-income census tracts far exceed the characteristics of the AA and shows excellent dispersion. The actual percentage for lending in moderate-income tracts indicates 31.58 percent, while the AA indicates 13.45 percent. Loan officers originated 36.84 percent of business loans in middle-income tracts. The bank’s performance is shown in the following table:

Table 3C - Geographic Distribution of Loans to Businesses in Walker, Houston, Madison, Leon, and Trinity Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Business Loans	0.00	0.00	13.45	31.58	69.87	36.84	16.68	31.58

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

Performance in the Robertson County AA

Our analysis revealed a poor dispersion throughout the census tracts of different income levels. We were unable to conduct a meaningful analysis of residential real estate and business loans in the AA. There were only six residential real estate loans made in the Robertson County AA, and all loans were made in middle-income tracts. There were only four business loans made, and they were also originated in middle-income tracts.

We were able to conduct a meaningful analysis of consumer loans. The bank did not originate any loans in moderate-income tracts. There are two moderate-income census tracts in Robertson County. These tracts contain the cities of Calvert and Hearne. We considered the fact that these cities are served by three other banks that have been established in the towns for several years, while FNB has been serving Robertson County for only two years. Also, management indicated that the traffic pattern between Calvert and Hearne directs persons to travel between those two cities before traveling 15 miles to Franklin, where FNB is located. Performance is detailed in the table below:

Table 3D - Geographic Distribution of Consumer Loans in Robertson County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	37.38	0.00	52.62	100.00	0.00	0.00

Source: Data collected by bank; U.S. Census data. 10% of the borrowers were located outside of the bank's AA.

Responses to Complaints

FNB has not received any complaints during this evaluation period directly related to CRA performance.

COMMUNITY DEVELOPMENT TEST

Overall, the bank's performance for the Community Development Test reflects excellent responsiveness to the needs of the AA. Community Development lending is concentrated in economic development and affordable housing. The level of investments reflects excellent responsiveness. The level of services supports the overall excellent responsiveness.

Number and Amount of Community Development Loans

The bank made several loans that meet the criteria of affordable housing, community service, and economic development. The bank made 18 qualified Community Development loans totaling \$2.5 million during the evaluation period. The bank also made six multi-family loans totaling \$1.1 million during the period.

Number and Amount of Qualified Investments

During the evaluation period, qualified investments totaled \$13.6 million. The bank made \$7 million in the Non-MSA AA and \$6.6 million the Robertson County AA.

The bank made donations to several local charity and non-profit organizations. Qualified donations totaled \$1.19 million during the evaluation period. All of the donations were made within the Non-MSA AA, which is where the bank's main office and most of the branches are located.

Donations worth noting, but not qualified, include the following:

- The bank participates in several County Fairs and Youth Livestock Shows in the AA. The bank typically purchases animals from the livestock auction. The funds

from the auction are used to give student scholarships. There are several thank you notes in the bank's files from students within the community.

- The bank makes several contributions per year to a variety of programs at Sam Houston State University (SHSU).

Extent to Which the Bank Provides Community Development Services

FNB's employees are active in the community. We identified three qualified Community Development services during the evaluation period. We also noted that the bank's officers and staff are involved in several community organizations whose purpose meets the definition for Community Development. Qualified Community Development services were:

- Sponsor and present FAFSA education for financial aid to area high schools in the bank's Walker, Trinity, Madison, Trinity, and Leon Counties AA.
- Make presentations as needed to Huntsville Independent School District and SHSU students in class on general banking topics.
- Provides a community service room to non-profit organizations in Huntsville, Crockett, and Franklin, Texas.
- Officers and staff involvement on community Boards:
 - o Budget Committee Chairman - Boys and Girls Club;
 - o Board Member & Chairman of the Board - TownCreek Nursing Home;
 - o Chairman of the Board - Houston County Chamber of Commerce;
 - o Chairman of the Board - Walker County Chamber of Commerce;
 - o Chairman - City of Huntsville Economic Development Council;
 - o Member - Madison County Chamber of Commerce;
 - o Board Member - Franklin Habitat for Humanity;
 - o Board Member - SHSU Small Business Development Center;
 - o Chairman of the Board - Crockett Area Chamber of Commerce.
 - o Board Member – Methodist Retirement Communities.
 - o Board Member – Huntsville Memorial Foundation.
 - o Board Member – Huntsville Memorial Hospital.

Other Activities

The bank has a Student Loan Program that serves a large population of students attending college in Huntsville, Texas. For the time period of 2007 through 2010, the bank made \$28.6 million in subsidized student loans in conjunction with the North Texas Higher Education Servicing Corporation. The number of loans is 9,184. Subsidized student loans are loans in which the interest on the note is paid by the government while the student is enrolled in college. Subsidized student loans are based on financial need.

Responsiveness to Community Development Needs

The bank's responsiveness to Community Development needs has been excellent overall.

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.