



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 10, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Refugio
Charter Number 12462**

**111 East Plasuela Street
Refugio, TX 78377**

**Comptroller of the Currency
San Antonio South Field Office
5350 South Staples, Suite 405
Corpus Christi, Texas 78411**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The First National Bank of Refugio's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas. Factors supporting the overall rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, market focus, and lending opportunities available in the assessment area.
- A substantial majority of loans, representing 91 percent of the number and 89 percent of the dollar volume, are within the bank's assessment area.
- The distribution of loans to individuals of different income levels is very good with a strong penetration of loans to low- and moderate-income individuals.
- Refugio County does not have any low- and moderate-income areas. For that reason, an analysis of the geographical distribution of the bank's lending efforts would not be meaningful.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

The First National Bank of Refugio (FNB) is a community bank with one office located in Refugio, Texas, the county seat of Refugio County. Refugio is located about 55 miles north of Corpus Christi, Texas. The bank is locally owned and operated. FNB has an affiliate relationship with the First National Bank of Woodsboro (FNB Woodsboro) and the Olympic Savings Association. All are based in Refugio County. FNB's primary market focus is agricultural lending with a strong consumer lending effort to low- and moderate-income individuals. As of September 30, 2001, FNB had total assets of \$52 million with net loans of \$11 million representing 22 percent of total assets. The previous CRA Performance Evaluation rating dated November 17, 1997 was satisfactory. There are no legal or other impediments that limit the bank's ability to meet the credit needs of the assessment area (AA). The bank participates in Farm Service Agency (FSA) and Small Business Administration (SBA) guaranteed loan programs. As of September 30, 2001, there were seven borrowers with FSA guaranteed loans. These had a combined balance of \$676 thousand. There were no outstanding SBA loans at the time of our review.

The following table depicts the bank's loan portfolio composition as of September 30, 2001:

Loan Category	\$ (000)	%
Consumer Loans	3,477	30
Commercial & Commercial Real Estate Loans	3,237	28
Agricultural & Farm Land Loans	3,134	27
Residential Real Estate Loans	1,822	15
Other Loans	15	<1
Total	11,685	100

DESCRIPTION OF REFUGIO COUNTY

The bank's assessment area (AA) is Refugio County, Texas. The county includes the communities of Refugio, Woodsboro, Bayside, Tivoli, and Austwell. Refugio County consists of three middle-income BNAs and has a population of 7,976 based on the 1990 Census. The AA reasonably represents the bank's lending and service area. The designation meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The family income distribution in the county is 26 percent low-income, 14 percent moderate-income, 18 percent middle-income, and 42 percent upper-income. The following table reflects additional demographic information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	2,179
Number of Households	2,907
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2001 HUD-Adjusted MFI	\$35,800
2000 HUD-Adjusted MFI	\$34,700
1999 HUD-Adjusted MFI	\$33,900
<i>Economic Indicators</i>	
Unemployment Rate	3.80%
Percent of owner occupied housing	56.08%
1990 Median Housing Value	\$38,242
% of Households Below Poverty Level	21.64%

Oil and gas production has declined and economic growth in the AA has been limited in recent years. Agricultural production remains a mainstay of the local economy. Refugio, the county

seat, is located on Highway 77, which has become a major trucking route between Houston and the Mexican border. The planned Interstate Highway 69 is to be built along much of the Highway 77 route. Currently, the AA's major employers are county and city government, the Refugio and Woodsboro school districts, and several oil field service companies. Refugio County has two other financial institutions, FNB Woodsboro and Olympic Savings Association with total assets of \$30 million and \$25 million, respectively.

As part of our examination we contacted a community development organization and a county governmental office, both in Refugio County. Both contacts indicated economic activity was relatively flat in the area but had favorable impressions of FNB's efforts to meet the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan Sample Criterion

The analysis of the following categories was based on a sample of loans. Specifically, we sampled consumer, residential, and small business/farm loans that originated since the previous CRA examination.

Loan-to-Deposit Ratio - Meets Standards for Satisfactory Performance

The bank's loan-to-deposit ratio is reasonable given the area's low loan demand, management's focus on low- and moderate-income consumers, and the bank's very large volume of public deposits (25 percent of total deposits). The bank's quarterly loan-to-deposit ratio has averaged 24 percent during the past three years and was 29 percent as of September 30, 2001. The ratio fluctuates seasonally with agricultural lending patterns but has trended upward in recent years. For example, the 29 percent ratio at September 30, 2001 was considerably higher than the 22 percent ratio at September 30, 1999 or 23 percent at September 30, 1998. Although trending upward, this is still below the ratio for FNB Woodsboro, which averaged 35 percent over the past three years. The higher loan-to-deposit ratio of FNB Woodsboro may be attributed to its closer proximity to the Corpus Christi market.

Lending in Assessment Area (AA) - Exceeds Standards for Satisfactory Performance

A substantial majority of the bank's loans are made in the AA. A lending sample was analyzed to assess the degree to which lending activity is centered in the bank's AA. All (20) of the residential loans reviewed and all but one (19 or 95 percent) of the consumer loans were within the AA. Similarly, all but one of the commercial and agricultural loans in our sample (19 or 95 percent) were in the AA. Internal reports were also reviewed. They confirm the findings of our loan sample. The bank's September 30, 2001 analysis indicates 91 percent of loans (by number) were in the AA. By dollar amount, the percentage was 89 percent.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	20	100%	525	100%	0	0%	0	0%
Consumer	19	95%	109	99%	1	5%	2	1%
Commercial/ Agricultural	19	95%	587	91%	1	5%	55	9%
Total Reviewed	58	97%	1,221	96%	2	3%	57	4%

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes - Exceeds Standards for Satisfactory Performance

Our sample review indicated a strong consumer lending effort to low-income borrowers. Thirty five percent of the number of loans in our consumer sample were to low-income families, which account for 26 percent of the AA households. Residential lending patterns were reasonable. Overall, loan distribution to individuals with different income levels within the AA exceeds the standards for satisfactory performance.

A key factor in the bank's consumer lending effort is the large number of very small (generally unsecured) loans to lower income borrowers. As of December 12, 2001, the bank had 215 loans that originated for \$1 thousand or less and another 217 that were less than \$2 thousand. Together, these account for more than 40 percent (by number) of all of the bank's outstanding loans. Both community contacts indicated the county is not experiencing population growth and consumer loans are a key lending need.

CONSUMER AND RESIDENTIAL								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26%		14%		18%		42%	
	% of Number	% of Amount						
Consumer	35%	12%	15%	20%	25%	13%	25%	55%
Residential	20%	8%	15%	10%	20%	16%	45%	66%

Our loan sample also suggested a strong effort of lending to small businesses and farms. Ninety five percent of commercial and agricultural loans reviewed were made to borrowers with revenues of under \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95%	5%
% of Bank Loans in AA #	95%	5%
% of Bank Loans in AA \$	91%	9%

Geographic Distribution of Loans - Not Rated.

This criterion was not rated. The bank's AA, Refugio County, is composed of three middle-income block numbering areas, making a geographic distribution analysis meaningless. Management's internal analysis indicates a good dispersion of loans throughout the AA.

Responses to Complaints - Not rated.

No consumer complaints regarding the bank's CRA performance were received during the evaluation period.

Fair Lending Review

An analysis of 1998, 1999, 2000, and 2001 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 2000.