



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

December 8, 2008

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Sonora  
Charter Number: 5466

102 East Main  
Sonora, Texas 76950

Office of the Comptroller of the Currency

San Antonio - South Field Office  
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 “Satisfactory.”**

First National Bank of Sonora’s (FNB) lending performance reflects a satisfactory response to community credit needs in its assessment areas (AAs). Factors that support the overall rating include:

- The average loan-to-deposit (LTD) ratio of 78 percent over the prior 22 quarters is reasonable given the institution’s size, financial condition, and credit needs of the AAs.
- A substantial majority of loans, 83 percent of the number and 72 percent of the dollar volume, are in the AAs.
- The distribution of borrowers reflects, given the demographics of the AAs, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AAs.

## **SCOPE OF EXAMINATION**

FNB was evaluated under the Small Bank examination procedures, which include a lending test. The lending test evaluates the bank’s record of meeting the credit needs of its AAs through its lending activities.

Our review covered the time period from June 2, 2003, the date of the prior Performance Evaluation, to December 8, 2008, the date for the current evaluation. We identified commercial and residential loans as the bank’s primary loan products. To evaluate FNB’s lending performance, we selected a sample of 80 loans originated during this time period. The sample consisted of 20 loans each for the two primary loan products in each of the two AAs.

## **DESCRIPTION OF INSTITUTION**

FNB is a full service intrastate bank headquartered in Sonora, Texas. FNB was chartered in 1900 and is a wholly owned subsidiary of First Sonora Bancshares, Inc., a one-bank holding company. As of September 30, 2008, FNB had total assets of \$187 million and Tier 1 leverage capital of \$18 million. The bank has three offices: the main office in Sonora, Texas, and two branches in San Angelo, Texas. All three locations have a walk-in teller lobby, a drive-up motor bank, and an automated teller machine (ATM). There is also a loan production office located in Boerne, Texas. As of September 30, 2008, FNB reported net loans of \$137 million. Net loans and leases represent 74 percent of total assets. The loan portfolio composition is as shown in the following table:

<b>Loan Portfolio Summary by Loan Product September 30, 2008</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Commercial	54%
Residential	23%
Consumer	12%
Agriculture/Farm	11%
<b>Total</b>	<b>100%</b>

*\*Source: September 30, 2008 Consolidated Report of Condition.*

The bank was rated “Satisfactory” at the prior CRA examination dated June 2, 2003. No legal impediments or other factors hinder the ability of FNB to meet the credit needs of its AA.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNB is the only independently owned community bank in Sutton County. There are several banks in San Angelo including smaller locally owned institutions and branches of much larger banks with offices across the United States. FNB has designated two AAs: Sutton County and Tom Green County. These AAs are described below.

### **Sutton County Assessment Area**

The Sutton County AA is comprised entirely of Sutton County. This AA is not in a metropolitan statistical area. Sutton County includes two census tracts. One is designated middle-income and the other is upper-income. The middle-income tract was identified as being distressed due to population loss. The AA meets the requirements of the regulation. There are no low- or moderate-income geographies in Sutton County.

Sutton County is located approximately 175 miles northwest of San Antonio, Texas. Economic conditions are currently stable due in large part to increased oil and natural gas production. The local school district and oil and gas companies are the largest employers in the county. The following table contains a summary of demographic information for this AA.

<b>Demographic Information for Sutton County</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Geographies (Census Tracts)	2	N/A	N/A	50%	50%
Population by Geography	4,077	N/A	N/A	88.5%	11.5%
Owner-Occupied Housing by Geography	1,091	N/A	N/A	91%	9%
Businesses by Geography	423	N/A	N/A	68%	32%
Farms by Geography	44	N/A	N/A	32%	68%
Family Distribution by Income Level	1,158	21%	13%	23%	43%
Household Distribution by Income Level	1,511	23%	13%	17%	47%
Census Median Family Income (MFI)		\$36,380	Median Housing Value		\$72,786
HUD – Adjusted MFI: 2008		\$41,800	Households Below Poverty Level		16.94%
HUD – Adjusted MFI: 2007		\$41,800	Unemployment Rate		1.64%
HUD – Adjusted MFI: 2006		\$43,100			

*Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data.*

### **Tom Green County Assessment Area**

The Tom Green County AA is comprised entirely of Tom Green County. It is a part of the San Angelo, Texas, metropolitan statistical area. Tom Green County includes 23 census tracts. One census tract is designated low-income, four are moderate-income, thirteen are middle-income, and five are upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Tom Green County is located approximately 210 miles northwest of San Antonio, Texas. Economic conditions are currently stable. Goodfellow Air Force Base, regional hospitals, and the local school district are the largest employers. The following table contains a summary of demographic information for this AA.

<b>Demographic Information for Tom Green County</b>					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	23	4%	17%	57%	22%
Population by Geography	104,010	1%	18%	53%	28%
Owner-Occupied Housing by Geography	25,334	1%	16%	53%	30%
Businesses by Geography	7,233	2%	16%	53%	29%
Farms by Geography	337	1%	6%	69%	24%
Family Distribution by Income Level	27,073	20%	18%	23%	39%
Household Distribution by Income Level	39,531	23%	17%	19%	41%
Census Median Family Income (MFI)		\$39,508	Median Housing Value		\$64,697
HUD – Adjusted MFI: 2008		\$49,100	Households Below Poverty Level		14.91%
HUD – Adjusted MFI: 2007		\$49,100	Unemployment Rate		3.49%
HUD – Adjusted MFI: 2006		\$46,800			

*Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data.*

This office conducted a community contact with a member of a local community organization in Tom Green County. The contact identified affordable housing as a need in Tom Green County.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FNB demonstrated satisfactory performance in meeting the credit needs of its AAs. We focused our review on the primary lending products originated since the previous CRA examination: commercial loans and residential loans. The sample of loans was selected to determine the extent of lending within the AAs, the distribution of loans by borrower income level in both AAs, and the geographic distribution of loans in Tom Green County. Since Sutton County is made up of only one middle-income census tract and one upper-income census tract, no meaningful analysis could be conducted for the geographic distribution of loans in this AA.

## Loan-to-Deposit Ratio

FNB's quarterly average LTD ratio over the past 22 quarters is 78 percent. This is reasonable when given the institution's size, financial condition, and AA credit needs. It is also reasonable when compared to the similarly situated financial institutions in the AAs. The following table shows FNB's LTD ratio compared to other competing financial institutions in the AAs.

<b>Institution</b> County and City of Bank Headquarters	<b>Assets as of 9/30/08 (000s)</b>	<b>Average Quarterly LTD Ratio 6/30/03 - 9/30/08</b>
Crockett National Bank Crockett County, Ozona, Texas	\$288,701	100%
<i>First National Bank of Sonora Sutton County, Sonora, Texas</i>	<i>\$186,665</i>	<i>78%</i>
Bank & Trust SSB Val Verde County, Del Rio, Texas	\$319,545	66%
First National Bank of Ballinger Runnels County, Ballinger, Texas	\$117,833	64%
Texas State Bank Tom Green County, San Angelo, Texas	\$161,314	53%
First National Bank of Mertzon Irion County, Mertzon, Texas	\$174,721	26%

*Source: Quarterly Consolidated Report of Condition Information.*

## Lending in Assessment Areas

A substantial majority of loans are in FNB's AAs. Overall, 82.5 percent of the number and 72 percent of the dollar volume of loans sampled were in the AAs. The following table reflects the distribution of loans, by number and dollar volume, which originated in and out of the AAs.

<b>Lending in Sutton County and Tom Green County</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000's)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Residential	17	85	3	15	20	2,357	82	506	18	2,863
Commercial	16	80	4	20	20	2,797	65	1,520	35	4,317
<b>Total Reviewed</b>	<b>33</b>	<b>82.5</b>	<b>7</b>	<b>17.5</b>	<b>40</b>	<b>5,154</b>	<b>72</b>	<b>2,026</b>	<b>28</b>	<b>7,180</b>

*Source: Loan Sample.*

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

The distribution of borrowers reflects, given the demographics of the AAs, reasonable penetration among individuals of different income levels and businesses of different sizes.

### Performance in the Sutton County Assessment Area

The borrower distribution of loans in the Sutton County AA is reasonable.

#### *Residential Loans*

Combined, FNB's residential lending to low- and moderate-income borrowers is comparable to the demographics of the AA. As shown in the table below, 30 percent of the loans in the residential sample were originated to borrowers with low- or moderate-income levels. This compares to 34 percent of the AA families being low- or moderate-income. The following table reflects the bank's record of residential lending in Sutton County based on our sample of loans.

<b>Borrower Distribution of Residential Real Estate Loans by Income Level in Sutton County</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential	21	10	13	20	22	25	44	45

*Source: Loan Sample; 2000 U.S. Census Data.*

#### *Commercial Loans*

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes in Sutton County. Ninety-five percent of the commercial loans in our sample were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is comparable to the 93 percent of AA businesses that reported their income level being small businesses. The following table shows the distribution of commercial loans among businesses in the AA based on our sample of loans.

<b>Borrower Distribution of Commercial Loans by Business Revenue in Sutton County</b>		
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
% of AA Businesses*	52	4
% of Bank Loans in AA by #	95	5
% of Bank Loans in AA by \$	99.6	0.4

*Source: Loan Sample; 2008 Business Geodemographic Data.*

*\* 44 Percent of businesses in Sutton County did not report revenue data.*

## **Performance in the Tom Green County Assessment Area**

The borrower distribution of loans in the Tom Green County AA is reasonable.

### **Residential Loans**

Residential lending activity to low- and moderate-income borrowers is lower than the demographic data for the AA. As shown in the table below, 20 percent of the loans in the sample were originated to borrowers with low- or moderate-income levels while the demographic data shows nearly 38 percent of families are low- or moderate-income. Although only four out of the 20 loans sampled were to low- or moderate-income borrowers, a review of the bank's 2008 HMDA Loan/Application Register showed 35 loans were made to borrowers with low- or moderate-income levels. Additionally, households below the poverty level represent 15 percent of the total households in the AA. The level of income for low-income families, based on the 2008 HUD-adjusted median family income, is \$24,550 or less. This level of income could inhibit potential borrowers from qualifying for residential loans, since the 2008 median housing value is \$64,697. The following table reflects the bank's record of residential lending in Tom Green County based on our sample of loans.

<b>Borrower Distribution of Residential Real Estate Loans by Income Level in Tom Green County</b>								
<b><i>Borrower Income Level</i></b>	<b><i>Low</i></b>		<b><i>Moderate</i></b>		<b><i>Middle</i></b>		<b><i>Upper</i></b>	
	<b>% of AA Families</b>	<b>% of # of Loans</b>	<b>% of AA Families</b>	<b>% of # of Loans</b>	<b>% of AA Families</b>	<b>% of # of Loans</b>	<b>% of AA Families</b>	<b>% of # of Loans</b>
Residential	19	10	18	10	23	20	40	60

*Source: Loan Sample; 2000 U.S. Census Data.*

### **Commercial Loans**

The distribution of loans to businesses falls slightly below the demographic data for businesses of different sizes, but is still considered reasonable. Our sample showed 85 percent of the number and 88 percent of the dollar volume of commercial loans sampled were made to businesses with gross annual revenue of \$1 million or less. This compares to 94 percent of businesses in the AA that reported revenue data. The following table shows the distribution of commercial loans among different-sized businesses in the AA based on our sample of loans.

<b>Borrower Distribution of Commercial Loans by Business Revenue in Tom Green County</b>		
<b><i>Business Revenues (or Sales)</i></b>	<b><i>≤\$1,000,000</i></b>	<b><i>&gt;\$1,000,000</i></b>
% of AA Businesses*	63	4
% of Bank Loans in AA by #	85	15
% of Bank Loans in AA by \$	88	12

*Source: Loan Sample; 2008 Business Geodemographic Data.*

\* 33 Percent of businesses in Tom Green County did not report revenue data.

## Geographic Distribution of Loans

The distribution of loans reflects a reasonable dispersion in the Tom Green County AA. An assessment of geographic distribution of loans for Sutton County would not be meaningful since there are no low- or moderate-income census tracts in the AA.

### *Residential Loans*

The geographic distribution of residential loans in Tom Green County reflects a reasonable dispersion in the bank's AA. None of the residential loans sampled in Tom Green County were made in the one low-income census tract in the AA. However, only one percent of all owner-occupied properties in the AA are located in that area. Fifteen percent of the residential loans sampled were made in the moderate-income census tracts. This compares to 16 percent of owner-occupied properties being located in those tracts. The following table shows the geographic distribution of residential loans in the AA.

<b>Geographic Distribution of Residential Real Estate Loans in Tom Green County</b>								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan type</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>	<i>% of AA Owner Occupied Housing</i>	<i>% of Number of Loans</i>
Residential	1	0	16	15	53	30	30	55

*Source: Loan sample; 2000 U.S. Census data.*

### *Commercial Loans*

The geographic distribution of commercial loans in Tom Green County is lower than the demographic data. About 18 percent of businesses in the AA are located in low- or moderate-income census tracts. Five percent of the commercial loans sampled were to businesses located in these census tracts. The one low-income census tract is located in the north central part of San Angelo and the four moderate-income census tracts are in the central part of the city. The growth and expansion in San Angelo continues to be located in the southern and western parts of the city where middle- and upper-income census tracts are located. As shown in the table below, the majority of commercial loans in our sample were made to businesses located in middle-income census tracts.

<b>Geographic Distribution of Commercial Loans to Businesses in Tom Green County</b>								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>	<i>% of AA Businesses</i>	<i>% of # of Loans</i>
Commercial	2	0	16	5	53	60	29	35

*Source: Loan sample; 2008 Business Geodemographic data.*



## **Responses to Complaints**

During the evaluation period, FNB received one CRA-related complaint. Management's response to the complaint was reasonable.

## **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.