



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

September 4, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Hico
Charter Number 4366**

**135 N. Pecan
Hico, TX 76457**

**Comptroller of the Currency
Fort Worth
9003 Airport Freeway Suite 275
North Richland Hills, TX 75201**

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.

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 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution'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 Hico, Hico, Texas, as prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of September 4, 2007. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

First National Bank of Hico's lending performance reflects satisfactory responsiveness to its community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio of 42.3% is reasonable given the bank's size, financial condition, local competition, and assessment area credit needs.
- A majority of the bank's loan activity is within the bank's assessment area.
- A geographic distribution of loans was not applicable as there were no low- or moderate-income geographies in the assessment area.
- The distribution of loans demonstrates reasonable penetration among individuals of different income levels and businesses of different sizes.
- There have been no CRA related complaints filed against the bank.

DESCRIPTION OF FIRST NATIONAL BANK OF HICO

First National Bank (FNB) is a small community bank located in Hico, Texas. Hico is a rural community located in Hamilton County, which is approximately 20 miles southeast of Stephenville, Texas and 80 miles southwest of Fort Worth, Texas. The bank operates from only one location, which is in downtown Hico. The bank has one off-site Automated Teller Machine (ATM) that is located in the local Ranglers convenience store.

FNB is a full-service community bank offering a wide variety of loan and deposit products. As of June 30, 2007, FNB had total assets of \$31 million, loans of \$13 million, and deposits of \$28 million. The bank's major lending categories are outlined in the table below.

Loan Summary	\$ (000)	%
Commercial Real Estate Loans	\$4,406	34%
Residential Real Estate Loans	\$3,723	29%
Consumer Loans	\$3,048	23%
Commercial Loans	\$1,757	13%
Other	\$29	< 1%
Total	\$12,963	100%
Percentage of Loans to Total Assets 41.7%		

Deposit Summary	\$ (000)	%
Demand Deposits	\$11,466	41%
Savings/NOW	\$1,673	6%
MMDA	\$3,721	13%
CDs < \$100,000	\$5,932	21%
CDs > \$100,000	\$5,397	19%
Total	\$28,189	100%

FNB is owned by First National Bancshares of Hico, Inc. (FNBHI), a one-bank holding company. Primary competition comes from the Hico branch of a state-chartered financial institution. Additionally, there are several financial institutions in the surrounding communities, and a total of 9 chartered institutions (either national or state) within the AA.

The most recent CRA examination was performed as of April 21, 2003, and resulted in a satisfactory rating. There are no impediments, legal or otherwise, which would hinder efforts to help meet assessment area (AA) credit needs. The bank offers Internet Banking, which is limited to balance inquiry and account transfer. Bill pay is not offered at this time; however, the bank is considering that option.

DESCRIPTION OF THE ASSESSMENT AREA

FNB has defined its AA to include a portion of Hamilton, Erath, and Bosque counties and consists of eight whole and contiguous Block Numbering Areas (BNA's). Hico is a rural community, located in Hamilton County near the intersection of all three counties. The community is made up of ranchers, dairy farmers, and local business people. Total population of the AA is 34,892. The AA is not part of any Metropolitan Statistical Area (MSA) and meets the legal requirements of the regulation.

Demographic and Economic Characteristics of the Assessment Areas *	
Population	
Number of Families	8,597
Number of Households	13,234
Geographies	
# Low-Income BNA	0
# Moderate-Income BNA	0
# Middle-Income BNA	6
# Upper-Income BNA	2
Median Family Income (MFI)	
2000 MFI for Assessment Area	\$40,165
2006 HUD Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	5.21%
2000 Median Housing Value	\$65,127
% of Households Below Poverty Level	17.87%

* Derived from the 2000 Census Bureau and 2006 Housing and Urban Development Agency (HUD) data.

The primary credit needs center around commercial and residential real estate, consumer (auto and other purpose loans) and small business loans. The economy remains dependent on the agriculture industry. Cattle prices are high and stable. The dairy industry is suffering from low milk prices combined with increased cost of feed and fertilizer. Several small dairies have sold out and several large dairies are either selling out or moving to areas of West Texas and New Mexico. Drought conditions officially ended with recent spring rains. The largest employers in the AA include Tarleton State University, FMC in Stephenville, local Independent School Districts, hospitals, and city and county governments.

We considered information from a community contact conducted during this examination. According to this contact, the bank has a good reputation as being willing to extend credit to all segments of the community, and meeting the immediate credit needs of the community, including low- and moderate-income individuals.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our conclusions are based on the bank's lending activity since the last CRA examination, dated April 12, 2003. As noted above, FNB continues to make commercial, commercial real estate, and consumer loans. Our assessment is based on a review of random samples of 20 1-4 family purchase mortgage loans, 20 consumer loans and 20 business loans. Our overall analysis indicates the bank is meeting the standards set out by the CRA.

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. The average of such ratios for each quarter-end since the last CRA examination is used to determine performance in this area. The average LTD ratio for FNB since the last CRA examination is 42.3%. In the last 12 months, the LTD ratio has steadily increased to a high of 45.4% at June 30, 2007. There continues to be an unusually strong level of competition in the assessment area. There are six other financial institutions that the bank considers its primary competition. The average loan-to-deposit ratios for these institutions, for the same period, range from 43.7% to 77.1%. Based on this information, the bank's LTD ratio is reasonable and within the range of area competing banks.

Lending in Assessment Area

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

This criterion quantifies what proportion of the bank's lending activity is 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. However, FNB's lending efforts are concentrated within the assessment area reviewed.

At this time, FNB does not track loans by location. To assess the bank's performance in this area we used the samples noted above. Based on our sample results, a majority of loans are within the bank's assessment area. The following table reflects the results of our assessment of the bank's efforts to lend in its assessment area.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Loans	17	85%	\$863	76%	3	15%	278	24%
Automobile Loans	17	85%	\$163	83%	3	15%	\$33	17%
Business Loans	18	90%	\$308	73%	2	10%	\$115	27%
Total Reviewed	52	87%	\$1,334	76%	8	13%	\$426	24%

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

The bank's loan distribution, to the different family and household income levels as well as businesses of different sizes, meets the standards for satisfactory performance.

The bank obtains and analyzes applicant income information during the loan decision process. However, this information is not monitored or used to assess the efforts to meet the standards for CRA purposes. To assess the bank's efforts, we used the samples noted above. Our analysis, detailed in the tables below, indicates that the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Additionally, the bank has a \$100 minimum loan amount in policy. A review of small loans reflected the bank has several loans with originating balances of \$1,000 or less, currently on the books (the lowest originating amount was \$450). We noted there were several other loans with originating balances between \$1,000 and \$1,500. This indicates the bank willingly extends credit to meet the needs of the consumer. Overall, we concluded that the bank's performance is generally proportionate to the income levels of the households within the assessment area, and the credit needs of low- and moderate-income individuals are being met. Also, bank meets the needs of the small businesses.

1-4 Family Purchase

1-4 FAMILY PURCHASE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16%		18%		22%		44%	
	% of Number	% of Amount						
Sample Totals	0%	0%	20%	32%	25%	23%	35%	34%

Note: 4% of the number and 12% of the dollar amount of loans sampled did not have income information. Also, we did not identify any loan in our sample made to a low income family. This is in part due to the fact that most of our sample included dual income families, where individually, they would qualify as low income, however, combined incomes were higher. This is not a concern.

Consumer Auto Lending

CONSUMER AUTO								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24%		17%		19%		40%	
	% of Number	% of Amount						
Sample Totals	20%	20%	15%	3%	35%	37%	20%	33%

Note: 10% of the number and 7% of the dollar amount of loans sampled did not have income information.

Business Lending

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *Forty two percent of assessment area businesses did not report revenue figures	54%	4%
% of Bank Loans in AA #	80%	0%
% of Bank Loans in AA \$	92%	0%

Note: 20% of the number and 8% of the dollar amount of loans sampled did not have income information.

Geographic Distribution of Loans

A geographic distribution analysis was not performed. There are no low- or moderate-income BNAs within the AA reviewed.

Responses to Complaints

FNB has not received any complaints pertaining to its CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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