



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 02, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 11700

1500 W. Main Street
Fabens, TX 79838

Office of the Comptroller of the Currency

San Antonio South Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 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's lending performance reflects a satisfactory response to credit needs in its community. Factors that support the overall rating include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans are in the bank's AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

First National Bank (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 AA through its lending activities.

The scope of the CRA examination covered the time period from August 18, 2003, the date of the prior Performance Evaluation (PE), to March 2, 2009, the date of the current evaluation. We identified commercial and residential loans as FNB's primary loan products. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). HMDA data was tested and found to be reliable so 2007 and 2008 HMDA data was used to evaluate the bank's residential loan performance. To evaluate the bank's commercial lending performance, we selected a sample of 20 commercial loans made from August 18, 2003, through December 31, 2008.

In evaluating the bank's loan-to-deposit ratio, we used a comparison of similarly situated banks. These banks were selected for analysis based on their proximity and similar size to FNB.

DESCRIPTION OF INSTITUTION

FNB is headquartered in Fabens, Texas. As of December 31, 2008, FNB had total assets of \$267 million. FNB is wholly owned by First Fabens Bancorporation, Inc. In addition to the main office, FNB operates six branches in and around El Paso. The bank owns two automatic teller machines located at two branches in El Paso. Since the last CRA examination, FNB has opened one branch located on the east side of El Paso (El Dorado Branch). The bank neither opened nor closed any other branches during the evaluation period. FNB offers a full range of deposit and loan products and services with a focus on commercial lending.

As of December 31, 2008, net loans represent 62 percent of the bank’s total assets. A summary of the loan portfolio is as follows:

| Loan Portfolio Summary by Loan Product December 31, 2008 | | |
|---|----------------------------------|-------------------------------------|
| Loan Category | Dollar Volume \$(000) | % of Outstanding Dollars |
| Commercial | 134,160 | 80% |
| Residential | 14,079 | 9% |
| Agriculture/Farm | 14,044 | 8% |
| Other Loans | 3,638 | 2% |
| Consumer | 1,590 | 1% |
| Total | 167,511 | 100% |

Source: December 31, 2008, Consolidated Report of Condition.

At the prior CRA examination dated August 18, 2003, a satisfactory rating was assigned. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the AA.

DESCRIPTION OF ASSESSMENT AREA

FNB’s AA includes all of El Paso County and block numbering area 9501 of Hudspeth County. El Paso County is included in the El Paso Metropolitan Statistical Area (MSA). The AA includes 127 census tracts with 8 tracts designated as low-income, 42 tracts as moderate-income, 41 tracts as middle-income, and 36 tracts as upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Fabens is located in El Paso County approximately 20 miles southeast of the city of El Paso. According to the U.S. Census Bureau as of 2007, the county of El Paso had an estimated population of 755,000. Combined with Ciudad Juarez, Mexico, the metropolitan area forms the largest population center on any international border in the world. Economic conditions are characterized as relatively stable. The economy of the AA is largely dependent upon Fort Bliss (military base) and other government agencies, defense-related businesses, and education. Competition from other financial institutions includes several locally headquartered banks, credit unions, and branches of larger national financial institutions.

The following table contains a summary of economic and demographic data for the AA.

| Demographic Information for El Paso MSA AA | | | | | |
|---|----------|--------------|-------------------|-----------------|----------------|
| | # | % Low | % Moderate | % Middle | % Upper |
| Geographies (Census Tracts) | 127 | 6% | 33% | 32% | 29% |
| Population by Geography | 682,194 | 4% | 31% | 34% | 31% |
| Owner Occupied Housing Units by Geography | 225,546 | 1% | 27% | 35% | 37% |
| Businesses by Geography | 35,149 | 9% | 31% | 25% | 35% |
| Farms by Geography | 492 | 2% | 41% | 22% | 35% |
| Family Distribution by Income Level | 167,928 | 22% | 17% | 19% | 42% |

| | | | | | |
|--|---------|----------|------------------------------------|-----|----------|
| Household Distribution by Income Level | 210,844 | 24% | 16% | 18% | 42% |
| | | | | | |
| Census Median Family Income (MFI) | | \$33,495 | Median Housing Value | | \$69,920 |
| HUD – Adjusted MFI: 2008 | | \$37,250 | Households Below the Poverty Level | | 22% |
| HUD – Adjusted MFI: 2007 | | \$36,542 | Unemployment Rate | | 9% |
| HUD – Adjusted MFI: 2006 | | \$39,528 | | | |

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

We conducted two community contacts located in El Paso County. They identified down payment assistance and affordable housing as needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB has demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: commercial and residential loans. The sample of commercial loans along with HMDA data was used to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the geographic distribution of loans in the AA.

Loan-to-Deposit Ratio

FNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and AA credit needs. As shown in the table below, the bank had a quarterly average LTD ratio of 70 percent over the 22 quarters since the last CRA examination. This ratio reasonably compares with other financial institutions of similar size, location and product offerings. FNB ranks third among the four area banks. The average LTD ratio for the other three banks over the same period of time was 79 percent.

| Institution | Assets as of 12/31/08 (000s) | Average Quarterly LTD Ratio as of 12/31/08 |
|----------------------------------|---------------------------------|--|
| Capital Bank, S.S.B. | \$112,770 | 102% |
| United Bank of El Paso Del Norte | \$133,663 | 71% |
| First National Bank | \$266,553 | 70% |
| Bank of The West | \$734,910 | 64% |

Source: Call Report data.

Lending in Assessment Area

A substantial majority of loans are in FNB’s AA. Overall, 95 percent of the number and 96 percent of the dollar volume of loans sampled were made in the AA. The following table reflects the distribution of loans, by number and dollar volume, which originated inside and outside the AA.

| Lending in El Paso MSA AA | | | | | | | | | | |
|----------------------------------|-----------------|----|---------|----|-------|------------------|----|---------|----|-----------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Purchase | 745 | 96 | 31 | 4 | 776 | 107,873 | 95 | 5,457 | 5 | 113,330 |
| Other Home Loans | 109 | 87 | 17 | 13 | 126 | 11,735 | 84 | 2,243 | 16 | 13,978 |
| Business | 19 | 95 | 1 | 5 | 20 | 5,245,887 | 96 | 219,046 | 4 | 5,464,933 |
| Total | 873 | 95 | 49 | 5 | 922 | 5,365,495 | 96 | 226,746 | 4 | 5,592,241 |

Source: Loan Sample; Data reported under HMDA.

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

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes. More weight was given to commercial loans as this is the banks primary loan product.

Commercial loans:

Our sample of commercial loans made within the AA indicates reasonable penetration among businesses of different sizes.

Of the 20 commercial loans in our sample, 85 percent of the number were made to businesses with revenues less than \$1 million. This exceeds the 67 percent of AA businesses that reported income data having similar revenues. Twenty-eight percent of AA businesses did not report data. Of AA businesses that reported revenue information, 93 percent reported gross annual revenues of less than \$1 million. The following table compares the commercial loan sample to the percentage of businesses in the AA.

| Borrower Distribution of Loans to Businesses in El Paso MSA AA | | | | |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 67 | 5 | 28 | 100% |
| % of Bank Loans in AA by # | 85 | 15 | N/A | 100% |
| % of Bank Loans in AA by \$ | 85 | 15 | N/A | 100% |

Source: Loan sample; 2008 Business Geodemographic Data.

* 28 percent of AA businesses in El Paso MSA did not report revenue data.

Residential loans:

Overall, the distribution of residential loans to borrowers reflects reasonable penetration among borrowers of different income levels.

Our analysis of total residential lending reflected percentages lower than those reported in the demographic data for low-income borrowers. FNB made 3 percent of residential loans to low-income borrowers during the evaluation period. The demographic data indicates 22 percent of families in the AA are low-income. Residential lending to moderate-income borrowers is also lower than the demographic data for moderate-income families. FNB

made seven percent of residential loans to moderate- income borrowers during the evaluation period. The demographic data indicates 17 percent of families in the AA are moderate- income. Households below the poverty level represent 22 percent of the total households in the AA. The level of income for low- income families based on the 2008 HUD-adjusted family income is \$18,624 or less. This low level could inhibit potential borrowers from qualifying for residential loans, since the 2008 median housing value is \$69,920.

Although the total number of residential loans made to low- and moderate-income borrowers is reasonable, home improvement loans made to low- and moderate-income borrowers exceed the demographic data.

The following table shows the distribution of home loan products among borrowers of different income levels.

| Borrower Distribution of Residential Real Estate Loans in El Paso MSA AA | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Purchase | 22 | 2 | 17 | 6 | 19 | 17 | 42 | 75 |
| Home Refinance | 22 | 3 | 17 | 9 | 19 | 12 | 42 | 76 |
| Home Improvement | 22 | 39 | 17 | 24 | 19 | 15 | 42 | 22 |
| Total | 22 | 3 | 17 | 7 | 19 | 17 | 42 | 73 |

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

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

Commercial loans:

Overall, the geographic distribution of commercial loans shows reasonable dispersion throughout the AA.

None of the loans in our sample were in low-income census tracts. Nine percent of AA businesses are in the tracts. Although our sample did not identify any commercial loans originated in low-income census tracts, the annual internal CRA assessment performed by the bank indicated 10 commercial loans totaling \$2.3 million originated during the evaluation period in low-income census tracts. The majority of the low- income census tracts are located in the downtown area where they are served by larger financial institutions. The remaining low-income census tracts are located in the industrial area of El Paso where there has been no growth or opportunities for FNB. The bank’s record of business lending in moderate-income geographies is reasonable. The bank made 25 percent of the sampled commercial loans to businesses located in moderate- income census tracts. This is comparable to the demographic data which indicates 31 percent of all businesses in the AA are located in moderate- income census tracts.

The following table reflects our commercial loan sample as compared to the percentage of businesses in each census tract income level.

| Geographic Distribution of Loans to Businesses/Farms in El Paso MSA AA | | | | | | | | |
|---|------------------------------|----------------------|------------------------------|----------------------|------------------------------|----------------------|-------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses/ Farms | % of Number of Loans | % of AA Businesses/ Farms | % of Number of Loans | % of AA Businesses/ Farms | % of Number of Loans | % of AA Businesses/ /Farms | % of Number of Loans |
| Business | 9 | 0 | 31 | 25 | 25 | 40 | 35 | 35 |

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

Residential loans:

Overall, the geographic distribution of residential loans shows reasonable dispersion throughout the AA.

Combined, FNB’s residential lending to low- and moderate-income census tracts is slightly lower than the demographic data. As shown in the table below, 17 percent of total residential loans were made to borrowers in low- and moderate- income census tracts. This is comparable to 28 percent of owner occupied housing located in these census tracts.

| Geographic Distribution of Residential Real Estate Loans in El Paso MSA AA | | | | | | | | |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan type | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Purchase | 1 | 1 | 27 | 15 | 35 | 32 | 37 | 52 |
| Home Refinance | 1 | 0 | 27 | 15 | 35 | 27 | 37 | 58 |
| Home Improvement | 1 | 3 | 27 | 40 | 35 | 34 | 37 | 23 |
| Total | 1 | 1 | 27 | 16 | 35 | 32 | 37 | 51 |

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

Responses to Complaints

FNB did not receive any complaints or public comments regarding CRA performance during this evaluation period.

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 needs.