



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 14, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Spearman
Charter Number 18609

729 W. 7th
Spearman, TX 79081-0000

Office of the Comptroller of the Currency

Lubbock Field Office
5225 South Loop 289, Suite 108
Lubbock, TX 79424-1319

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 Spearman (FNB) has a satisfactory performance record under the Community Reinvestment Act (CRA). This is supported by the following factors:

- FNB's loan-to-deposit ratio is reasonable when compared to banks of similar size and characteristics in or near the assessment area (AA). The loan-to-deposit ratio averaged 61.13 percent during the evaluation period.
- A substantial majority of FNB's loans are located within the AA. Based on a sample of 47 loans, 87.2 percent of the number of loans and 92.2 percent of the dollar amount of loans in the sample were to borrowers located within the bank's AA.
- FNB's distribution of Commercial Real Estate loans to businesses with gross revenues of less than \$1 million is reasonable. The bank has reasonable penetration of loans to consumers in low- and moderate-income households.

SCOPE OF EXAMINATION

We completed a CRA examination using full-scope procedures outlined in the Comptroller's Handbook. In addition, a sample was drawn from the bank's two primary loan products to determine the level of lending inside the bank's AA and to evaluate the distribution of loans to borrowers in different income categories.

DESCRIPTION OF INSTITUTION

FNB is a community bank located in Spearman, Texas, the county seat of Hansford County in the northern Texas panhandle. The bank is wholly owned by Spearman Bancshares, a one-bank holding company located in Spearman, Texas. Spearman Bancshares reported consolidated assets of \$110 million as of September 30, 2008.

FNB is a full service bank operating from two locations; the main location in Spearman and a branch office in Dumas, Texas. At the previous CRA examination dated May 6, 2002, the bank was rated satisfactory. FNB's business strategy is to maintain public confidence and to maintain its reputation as a sound financial institution. FNB has no legal or financial circumstances that could impede the bank's ability to help meet the credit needs in its AA. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

The bank provides all customary banking services, including a wide variety of loan and deposit accounts. The bank provides 24-hour access to banking services through its website at www.fnbspearman.com. Services include account balance inquiries, funds transfer activities, and bill pay services. FNB also has a 24-hour telebanking service.

FNB holds approximately 12 percent of deposits in the AA. As of September 30, 2008, FNB had total assets of \$110 million, with net loans and leases comprising 50.53 percent of this total. The bank's loan products include business, farm, consumer, and residential real estate loans. The following table depicts FNB's loan portfolio composition.

Loan Portfolio Composition as of September 30, 2008				
Loan Type	\$ (000)	%	# of Notes	%
Commercial Real Estate	19,127	34.41	120	10.53
Agriculture	15,742	28.32	239	20.97
Commercial	9,326	16.78	122	10.70
Residential Real Estate	4,920	8.85	56	4.91
Agriculture Real Estate	3,238	5.83	33	2.89
Consumer	3,151	5.67	476	41.75
Other	74	0.14	94	8.25
TOTAL	55,578	100%	1,140	100%

Source: September 30, 2008 Report of Condition & Bank Loan Trial Balance

DESCRIPTION OF ASSESSMENT AREA

The Board of FNB has established Hansford, Ochiltree and Moore Counties as the bank's AA. The three counties are contiguous. This area meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. The AA has a combined population of approximately 34,496, broken out as follows: 9,006 in Ochiltree County, 20,121 in Moore County, and 5,369 in Hansford County. Population totals have changed very little over the last ten years. Specific demographic data and economic data for the AA are listed below.

Demographic and Economic Characteristics of Hansford, Ochiltree, and Moore County AA	
<i>Population</i>	
Number of Families	9,403
Number of Households	12,108
<i>Geographies</i>	
Number of Census Tracts	9
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	77.78%
% Upper-Income Census Tracts	22.22%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,380
2007 & 2008 HUD-Adjusted MFI	41,800
2006 HUD-Adjusted MFI	43,100
2004 & 2005 HUD-Adjusted MFI	42,000
<i>Economic Indicators</i>	
Unemployment Rate	2.01%
2008 Median Housing Value	\$50,674
% of Households Below Poverty Level	12.47%

Source: 2000 Census data and HUD updated income data

There are nine census tracts in the AA, seven designated as middle income, and two designated as upper-income. No specific areas were designated as low- or moderate-income as of the 2000 census. Demographic information in the AA shows that 15.45 percent of families are low-income, and 17.87 percent of families are moderate-income. The unemployment rate is 2.01 percent, and 12.47 percent of families are below the poverty level as of the 2000 census. The 2008 HUD-Adjusted median family income is \$41,800.

The level of local competition is high. There are eleven financial institutions located within the AA. Numerous other banks from surrounding communities in the Texas and Oklahoma panhandles also compete for business within the AA.

The AA is reliant on cattle, agriculture, and oil and gas industries. The economic conditions are robust. The outlook remains positive, yet cautious with the slowing national economy. The primary employers in the AA are the local school districts, hospitals, and various oil field service companies located within the three counties. The local retail business climate in the AA remains very good. In addition to the local population, consumers outside of the AA travel to the area for various retail services.

As part of this CRA examination, a community contact was made to help ascertain the credit needs of the AA. The immediate credit needs of the community are being fulfilled according to the contact. The community contact noted that the local economy remains strong despite the slowing national economy. The community contact noted that housing, including low- and moderate- income housing, remains the biggest need for the community. The contact stated that the financial resources are available for the construction of new housing, but finding willing contractors and other resources has been difficult.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

This Performance Evaluation (PE) assesses FNB's performance focusing primarily on five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to consumers and businesses of different sizes, geographic distribution of loans, and responses to CRA related complaints.

To evaluate FNB's lending performance, we reviewed a sample of 47 loans. Our sample of major loan products offered by the bank consisted of 23 consumer loans and 24 commercial real estate business loans. Based on the analysis, and consistent with available resources and capabilities, FNB is meeting the credit needs of the AA in a satisfactory manner.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the quarterly average loan-to-deposit ratio from September 30, 2003 through September 30, 2008 of 61.13 percent. During the evaluation period, FNB's loan-to-deposit ratio ranged from a low of 50.64 percent to 68.36 percent.

The quarterly average loan-to-deposit ratio for banks in geographies similar to the AA is depicted below. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 09/30/08)	Average Loan-to-Deposit Ratio
Perryton National Bank	\$111,900	43.19%
First State Bank - Spearman	\$92,397	54.89%
Interstate Bank, SSB - Perryton	\$118,124	64.22%
First State Bank - Stratford	\$178,239	70.26%
First National Bank of Spearman	\$109,852	61.13%

Source: Institution Reports of Condition from September 2003 to September 2008

Lending in Assessment Area

FNB's lending in their AA exceeds the standards for satisfactory performance. A substantial majority of loans were made within its AA. In order to assess performance of this criterion, we reviewed 24 commercial real estate and 23 consumer loans originated between January 2004 and September 2008. Our analysis determined that 87.2 percent of the number of loans and 92.2 percent of the dollar amount of loans in the sample were originated within the bank's AA. The breakdown by loan category is depicted in the following table.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	21	87.50	3	12.50	100.0	\$9,819,497	92.39	\$808,710	7.61	100.0
Consumer	20	86.96	3	13.04	100.0	\$296,254	85.35	\$50,861	14.65	100.0
Totals	41	87.23	6	12.77	100.0	\$10,115,751	92.17	\$859,571	7.83	100.0

Source: Sample of loans used for CRA performance analysis

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

FNB's loan portfolio reflects a reasonable distribution among borrowers of various income levels and businesses of different sizes within their AA. To perform our analysis, we reviewed income information of 21 commercial real estate loans to businesses and 20 consumer loans in the AA.

Commercial Real Estate Loans to Businesses - Based on 2008 Business Demographic Data, there are 2,974 non-farm businesses within the AA. Of this number, 55.04 percent of non-farm businesses reported revenues less than or equal to \$1 million. Of the loans in our sample 61.9 percent were to businesses reporting annual revenues below \$1 million. This level is comparable with the AA and reflects a reasonable penetration of loans to small businesses.

Borrower Distribution on Business Loans in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	55.04%	3.16%	41.80%	100%
% of Bank Loans in AA by #	61.90%	38.10%	0%	100%
% of Bank Loans in AA by \$	75.47%	24.53%	0%	100%

Source: Loan Sample; Dunn and Bradstreet data

Consumer Loans - Our analysis reflects a reasonable distribution of consumer loans to low- and moderate-income households. Based on 2000 Census information, 33.88 percent of households in the AA are low- and moderate-income. Our review determined that 30 percent of consumer loans were made to low- and moderate-income households. This distribution reflects the income characteristics of the AA.

Borrower Distribution of Consumer Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	17.30%	5.00%	16.58%	25.00%	17.89%	25.00%	48.22%	45.00%

Source: Loan sample; U.S. Census data

Geographic Distribution of Loans

Because no census tracts are identified as low- or moderate-income, this analysis was not considered meaningful, and therefore it was not performed.

Responses to Complaints

No complaints relating to CRA performance have been received by FNB during the evaluation period. FNB has systems in place to ensure that complaints are addressed in a timely manner.

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.