



SMALL BANK

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

PUBLIC DISCLOSURE

November 15, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First Liberty National Bank
Charter Number 12850**

**1900 Sam Houston Avenue
Liberty, TX 77575**

**Comptroller of the Currency
Houston Field Office
1301 McKinney Street Suite 3410
Houston, TX 77010**

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. The factors and data supporting this rating are as follows:

- The First Liberty National Bank's (FLNB) loan-to-deposit ratio is reasonable.
- A substantial majority of the bank's loans originated within the bank's designated Assessment Area (AA).
- FLNB's distribution of loans by borrower income level is adequate. The bank's percentage of small business loans to businesses with revenues less than \$1 million exceeds the percentage of small businesses in the AA.
- The bank has achieved an adequate geographic dispersion of loans within its AA.
- The bank has not received any consumer complaints regarding CRA performance.

DESCRIPTION OF INSTITUTION

The First Liberty National Bank (FLNB) is a \$211 million bank located in Liberty, Texas. FLNB operates two full service banking offices. The main office located in Liberty has an Automated Teller Machine (ATM) and a drive-through facility. There is also a full service branch in Dayton, Texas. One drive-up ATM and six in-facility withdrawal only ATMs are located in various areas throughout the assessment area. FLNB is wholly owned by First Liberty National Bancshares, a bank holding company, which reported total assets of \$216 million as of December 31, 2003.

FLNB offers a full range of banking products and services including trust services. Insurance products are offered through the bank's wholly owned subsidiary, FLNB Insurance Agency, Inc. FLNB's primary business focus is consumer-related lending. As of September 30, 2004, loans totaled \$64 million and deposits totaled \$181 million. Loans represent 30% of total assets. The distribution of FLNB's loan portfolio was as follows: 1-4 family residential properties (30%), commercial and commercial real estate (41%), and consumer loans (29%). The bank did originate a material volume of agriculture-related loans during the evaluation period. As a result of the loan breakdown, our analysis of the bank's CRA performance included a sample of commercial, consumer, and residential mortgage loans.

FLNB's tier one capital was \$28 million and their risk based capital-to-risk weighted assets ratio was 31.65% as of September 30, 2004. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs within its AA. The bank was rated "Satisfactory" in the previous CRA Public Evaluation dated April 26, 1999.

DESCRIPTION OF FIRST LIBERTY NATIONAL BANK ASSESSMENT AREA

FLNB's AA is comprised of Liberty County, Chambers County, parts of Harris County, Jefferson County, Polk County and Hardin County. The bank's assessment area is part of the Houston-Baytown-Sugarland Metropolitan Statistical Area (MSA) and the Beaumont-Port Arthur MSA. The delineation meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The AA consists of 1 low-income (3%); 5 moderate-income (16%); 20 middle-income (65%); 4 upper-income (13%); and, 1 non-populated (3%) census tracts based on 2000 census data. FLNB's main banking office is located in a moderate-to middle-income geography.

Approximately 40,318 families reside in the AA. Of this total, 22% are classified low-income, 17% are moderate-income, 23% are middle-income, and 38% are upper-income. The 2004 updated MSA median family income for the AA was \$57,296. The total population of the AA is 125,392 with 13% living below poverty level.

The overall economic condition of the AA has been static but is now improving. Liberty is the county seat of Liberty, Texas. As of December 31, 2003, the unemployment rate for Liberty County was 10%, above the six county area average of 8%. The local economy is centered in educational, service-related jobs, manufacturing, construction and retail trade. The major employers include the local school districts, manufacturing companies, several large retail establishments, financial institutions, as well as government organizations.

Competition in the AA is strong. Competition consists of branches of larger banks, other small banks in the rural areas, insurance offices, investment firms, as well as credit unions. FLNB is ranked second in the AA with 31% of the county deposit base as of June 30, 2004.

COMMUNITY'S CREDIT NEEDS

One CRA-related community contact was made with a representative of a local government organization that is knowledgeable of the economic and business development environment in the community. This contact indicated the need for community development in the area. Bank management has identified small business, small consumer loans, and economic development projects as the primary credit needs within the assessment area. The community contact indicated that FLNB management is active in the community and is very cooperative in the activities and projects within the community. Also, FLNB works diligently to meet the credit needs of the assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our analysis included an evaluation of commercial, consumer, and residential mortgage loans, as these are the primary loan products based on the bank's current loan portfolio composition. We selected a random sample of 20 commercial loans, 33 residential mortgage loans, and 24 consumer loans originated or purchased during the evaluation period. Our evaluation period was April 27, 1999 through November 19, 2004.

Loan-to-Deposit Ratio

FLNB's quarterly average loan-to-deposit ratio since the last performance evaluation is 39%. This ratio is reasonable. There is one other similarly situated institution within the bank's AA based on the size or age of the institution for comparison purposes. FLNB's loan-to-deposit ratio was low in comparison to this bank's average loan-to-deposit ratio of 61%. FLNB has a higher level of public funds than average and also makes a higher volume of small dollar loans.

Lending in Assessment Area

FLNB's lending in the AA is very good and exceeds the standards for satisfactory performance. Based on our samples, a substantial majority of the banks loans originated within the bank's AA, as illustrated in the table below. Our sample review reflected 82% of the number and 90% of the dollar amount of loans reviewed originated within the assessment area.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	18	75.0	6	25.0	24	\$69	65.1	37	34.9	\$106
Commercial	20	100.0	0	0	20	\$4,251	100.0	0	100.0	\$4,251
Residential	25	75.8	8	24.2	33	\$1,391	71.1	\$566	28.9	\$1,957
Total Reviewed	63	81.8	14	18.2	77	\$5,711	90.5	\$603	9.5	\$6,314

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

FLNB's record of lending to borrowers of different income levels and businesses of different sizes is adequate and meets the standards for satisfactory performance.

FLNB’s distribution of residential mortgage loans is adequate. The bank originated 8% and 16% of their residential mortgage loans to low- and moderate-income borrowers, respectively, based on the number of loans sampled. While the bank’s percentage of loans to low- and moderate-income borrowers appears low overall, the bank’s performance is comparative with the AA demographics. This lower level is mitigated by the fact that 13% of the families live below the poverty level.

Borrower Distribution of Residential Real Estate Loans								
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
Residential Loans	22.3	8.0	17.5	16.0	22.7	40.0	36.4	36.0

FLNB’s distribution of commercial loans is reasonable. FLNB originated 90% by number and 40% by dollar volume of their commercial loans to small businesses (businesses with revenues of \$1 million or less). The bank's performance compares favorably to the percentage of small businesses in the AA reporting revenues of less than \$1 million.

Borrower Distribution of Loans to Businesses/Farms				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66.5	3.7	29.8	100
% of Bank Loans in AA by #	90.0	10.0	0.0	100
% of Bank Loans in AA by \$	40.6	59.4	0.0	100

FLNB’s distribution of consumer loans is above average. The bank originated 44% and 22% of their consumer loans to low- and moderate-income borrowers, respectively, based on the number of loans sampled. The bank’s performance compares favorably to the percentage of low- and moderate-income households in the AA.

Borrower Distribution of Consumer Loans								
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	26.5	44.4	15.2	22.2	19.7	11.1	38.6	22.2

Geographic Distribution of Loans

The bank's overall distribution of loans by geography is adequate and meets the standards for satisfactory performance. The distribution of residential real estate loans in low- and moderate-income census tracts is near the percentage of owner-occupied housing units in these geographies.

Geographic Distribution of Residential Real Estate Loans								
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
Residential Loans	1.3	0	21.2	24	61.6	76	15.9	0

The bank's record of lending to small businesses of various sizes reflects an adequate geographic dispersion throughout the bank's AA.

Geographic Distribution of Loans to Businesses/Farms								
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
Commercial Loans	6.3	0	55.1	35.0	13.2	65.0	16.5	0

The distribution of consumer loans by geography is good. The distribution of consumer loans in low- and moderate-income census tracts is good compared to the percentage of households in those combined geographies.

Geographic Distribution of Consumer Loans								
Census Tract 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	2.5	0	21.6	38.9	61.1	61.1	14.8	0

Responses to Complaints

During this evaluation period, FLNB did not receive any consumer complaints that relate to CRA performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.