



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

August 25, 2008

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

First National Bank in Port Lavaca  
Charter Number: 14821

1101 Highway 35 (By-Pass) South  
Port Lavaca, Texas 77979

Office of the Comptroller of the Currency

San Antonio - South Field Office  
10001 Reunion Place, Suite 250  
San Antonio, Texas 78216

**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 the 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 bank’s loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance.
- A substantial majority of the bank’s loans are extended to borrowers residing within its assessment area (AA).
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and to businesses of different sizes.
- The geographic distribution of loans represents reasonable dispersion throughout the AA.

**SCOPE OF EXAMINATION**

First National Bank in Port Lavaca (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.

Our examination scope covered the time period from March 31, 2003, to August 25, 2008. We identified commercial, residential real estate, and consumer loans to be the bank’s primary loan products. We selected a random sample of 20 loans originated in 2003 through 2008 to evaluate residential lending. The commercial and consumer sample consisted of a random sample of 20 loans for each type made in 2006 through 2008.

**DESCRIPTION OF INSTITUTION**

FNB, an intrastate community bank with total assets of \$171 million as of June 30, 2008, is a wholly-owned subsidiary of Bauer Management Company, a one-bank holding company. The bank has designated Calhoun County as its AA.

FNB’s main office is located in Port Lavaca, Texas, with branches located in Seadrift and Port O’Connor. The bank’s former affiliate, Seaport Bank located in Seadrift, Texas, merged into FNB on February 28, 2006. The Port O’Connor branch was opened on September 19, 2005. FNB offers various loan, deposit, and trust services to the community. The bank operates five 24-hour automatic teller machines (ATMs) in the AA. Competition comes from branches of several regional and nationwide banks.

The following table reflects the bank’s loan distribution as of June 30, 2008.

<b>Loan Portfolio Summary by Loan Product June 30, 2008</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Commercial and Commercial Real Estate	36%
Residential Real Estate	32%
Agriculture	18%
Consumer	14%
<b>Total</b>	<b>100%</b>

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

There are no legal, financial, or other factors impeding FNB’s ability to help meet the credit needs in its AA. The prior CRA examination was conducted as of March 31, 2003, and reflected a satisfactory rating.

**DESCRIPTION OF ASSESSMENT AREA**

The defined AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income census tracts. FNB has defined Calhoun County as its AA.

The city of Port Lavaca is the county seat, as well as the largest city in the AA. Calhoun County is considered a part of the Victoria Metropolitan Statistical Area (MSA). According to 2000 U.S. Census Bureau Data, population in the AA approximates 21,000. Of the total population, 24% are low-income families, 18% moderate-income families, 21% middle-income families, and 37% upper-income families. Approximately 15% of the families in the population had income below the poverty level.

The major industries in Calhoun County are manufacturing, government, construction, education, and health care. Interplast Group, Formosa Plastics, INEOS, Dow Chemical, Seadrift Coke, and Alcoa continue to be the largest chemical industry employers. The unemployment rate of 3.2% remains lower than that of the State of Texas (4.7%) and the United States (6.1%).

We performed one community contact in conjunction with this examination. The contact, located in Port Lavaca, identified the need for public transportation and public shelter as community needs. The contact spoke favorably about FNB and stated that all local financial institutions were very active within the community.

The following table details demographic and economic characteristics of Calhoun County.

<b>Demographic Information for Calhoun County</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Geographies (Census Tracts)	5	N/A	20.00%	80.00%	N/A
Population by Geography	20,647	N/A	21.10%	78.90%	N/A
Housing Units by Geography	10,238	N/A	16.76%	83.24%	N/A
Businesses by Geography	1,382	N/A	20.41%	79.59%	N/A
Farms by Geography	62	N/A	11.29%	88.71%	N/A
Family Distribution by Income Level	5,605	24.16%	17.72%	20.62%	37.50%
Household Distribution by Income Level	7,434	20.59%	14.76%	16.41%	48.24%
<b>Census Median Family Income (MFI)</b>					
Census Median Family Income (MFI)		\$41,421	Median Housing Value	\$51,785	
HUD – Adjusted MFI: 2008		\$50,800	Households Below the Poverty Level	15.09%	
HUD – Adjusted MFI: 2007		\$48,800	Unemployment Rate	3.19%	
HUD – Adjusted MFI: 2006		\$51,200			

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB demonstrated satisfactory performance in meeting the credit needs of its AA. The bank has a reasonable LTD ratio and makes a vast majority of its loans within the AA. According to the loan samples, FNB’s record of lending in the moderate-income census tract falls below the demographic information for the AA. However, the bank has a reasonable record of lending to borrowers of different income levels and businesses of different sizes.

We focused our review on the primary lending products originated since the previous CRA examination: residential loans, commercial loans, and consumer loans. For the purposes of our review, commercial loans include loans secured by commercial real estate.

All criteria of the lending test are documented below.

### Loan-to-Deposit Ratio

FNB’s LTD ratio meets the standards for satisfactory performance with a quarterly average ratio of 34%. The bank’s quarterly LTD ratio has ranged from 24% to 54% since 2003. The LTD ratio has increased since the prior evaluation due to the merger of Seaport Bank into FNB. FNB’s quarterly average LTD was 26% in 2003. As of June 30, 2008, FNB’s LTD ratio is 54%.

When compared to the average LTD ratios of community banks headquartered in surrounding counties, FNB’s LTD is fourth out of five institutions. This table depicts the LTD ratios of FNB and similarly situated banks from surrounding counties. There are no other banks headquartered in Calhoun County.

Institution	Assets as of 06/30/08 (000s)	Average Quarterly LTD Ratio as of 6/30/08
<i>First National Bank of Port Lavaca, Texas</i>	<i>170,581</i>	<i>34%</i>
Citizens State Bank of Palacios, Texas	43,705	70%
TrustTexas Bank – Cuero, Texas	151,313	58%
First National Bank of Beeville, Texas	151,495	54%
Citizens State Bank – Ganado, Texas	55,570	18%

\* Source: Call Report data.

### Lending in Assessment Area

FNB exceeds the standards for satisfactory performance with a vast majority of loans originating in its AA. Overall, 88% of the number of loans and 92% of the dollar volume of loans sampled were made within the AA. The following table reflects the distribution of loans, by number and dollar volume, which originated in and out of the AA.

Lending in Calhoun County										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	18	90	2	10	20	1,743	93	132	7	1,875
Commercial	19	95	1	5	20	907	98	15	2	922
Consumer	16	80	4	20	20	261	74	94	26	355
<b>Total Reviewed</b>	<b>53</b>	<b>88</b>	<b>7</b>	<b>12</b>	<b>60</b>	<b>2,911</b>	<b>92</b>	<b>241</b>	<b>8</b>	<b>3,152</b>

\* Source: Loan Sample selected at random from bank records.

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

FNB’s lending activity meets the standards for satisfactory performance. Our loan sample reflected that the distribution of loans indicates a reasonable penetration among individuals of different income levels and to businesses of different sizes. The bank’s record of lending to small businesses is very good. FNB’s consumer lending levels slightly exceed the demographics of the area, while its residential lending falls below the demographics of the AA.

Our review of loans included a random sample of 20 commercial, 20 consumer, and 20 residential real estate loans originated in the AA.

#### Commercial Loans

The commercial loan sample showed an excellent penetration of loans to small businesses. We used loan size as a proxy for income since income information was not available for some of the loans we sampled. Ninety percent of the loans we sampled had original amounts of less than \$200,000. All of the commercial loans in our sample had original amounts less than \$500,000. Please refer to the following table.

Borrower Distribution of Loans to Businesses by Loan Size in Calhoun County				
Loan Size	# of Loans	% of Number	\$ Volume of Loans (000s)	% of Dollars
Less than \$200,000	18	90%	286	31%
\$200,000 - \$400,00	1	5%	200	22%
\$400,000 - \$500,000	1	5%	428	47%
Total	20	100%	914	100%

Source: Loan Sample

#### Consumer Loans

The distribution of consumer loans to borrowers reflects an excellent penetration among borrowers of different income levels. The bank’s level of lending exceeds the demographics for both low- and moderate-income borrowers. FNB made 25% and 20% of the loans sampled to low- and moderate-

income borrowers, respectively. Low-income households represent 21% of total households, with moderate-income households totaling another 15%. The following table shows a comparison of our loan sample to demographic data of the AA.

<b>Borrower Distribution of Consumer Loans by Income Level in Calhoun County</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>
Consumer	21%	25%	15%	20%	16%	20%	48%	35%

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

**Residential Real Estate Loans**

The loan sample shows the bank’s level of residential lending falls below the demographics of the AA. Fifteen percent of the number of consumer loans sampled was made to moderate-income borrowers. This is comparable to the 18% of families in the AA being moderate-income. FNB also made 5% of the residential real estate loans sampled to low-income borrowers. Of all families in the AA, 24% are low-income.

The following table depicts the distribution of our sample of residential loan originations in the AA.

<b>Borrower Distribution of Residential Real Estate Loans by Income Level in Calhoun County</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
Residential	24%	5%	18%	15%	21%	30%	37%	50%

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

**Geographic Distribution of Loans**

The geographic distribution of loans represents reasonable dispersion throughout the AA. The AA has one moderate-income tract and no low-income tracts. The bank has a low level of lending inside the moderate-income tract based on all three loan samples. There are, however, mitigating factors that help explain this low level of lending.

**Residential Real Estate Loans**

The bank made one residential real estate loan in our sample of 20 in the moderate-income census tract. Demographic information shows that 18% of the owner-occupied properties in the AA are located in that census tract. One reason for the low level of residential lending in the moderate-income census tract is that there has been no new residential construction in this tract for more than 20 years. The moderate-income tract includes the oldest part of Port Lavaca.

The following table shows the distribution of home loan products among census tracts by different income levels.

Geographic Distribution of Residential Real Estate Loans in Calhoun County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
	N/A	N/A	18%	5%	82%	95%	N/A	N/A

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

**Consumer Loans**

The level of consumer lending in the moderate-income tract is higher than the level of residential lending, but still falls below demographic levels. Approximately 20% of AA households are located in the moderate-income census tract, but the bank made only 10% of the sampled loans in that area.

The following table shows the distribution of home loan products among census tracts by different income levels.

Geographic Distribution of Consumer Loans in Calhoun County								
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
	N/A	N/A	20%	10%	80%	90%	N/A	N/A

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

**Commercial Loans**

The geographic distribution of business loans reflects poor dispersion among census tracts of different income levels. None of the commercial loans in our sample were to businesses located in the moderate-income census tract. Twenty percent of AA businesses are in the moderate-income census tract. While none of the commercial loans in our sample were moderate-income, bank management brought to our attention four new commercial loans the bank made in the census tract. The following table shows the results of our commercial loan sample compared to the location of the businesses in the AA.

<b>Geographic Distribution of Commercial Loans in Calhoun County</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<i>Loan Type</i>	<i>% of AA Businesses</i>	<i>% of Number of Loans</i>	<i>% of AA Businesses</i>	<i>% of Number of Loans</i>	<i>% of AA Businesses</i>	<i>% of Number of Loans</i>	<i>% of AA Businesses</i>	<i>% of Number of Loans</i>
	N/A	N/A	20%	0%	80%	100%	N/A	N/A

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

### **Responses to Complaints**

FNB has not received any consumer complaints related to its 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 credit needs.