



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**June 18, 2007**

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

**The First National Bank of Baird  
Charter Number 3286**

**244 Market Street  
Baird, TX 79504**

**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.**

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

The First National Bank of Baird'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 86.84% is reasonable given the bank's size, financial condition, local competition, and assessment area (AA) credit needs.
- A majority of the bank's loan activity is within the bank's AAs.
- The geographic distribution of loans demonstrates reasonable penetration in the moderate income geographies (there are no low 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 INSTITUTION**

The First National Bank of Baird (FNB) is a community bank headquartered in Baird, Texas, which is located approximately 20 miles east of Abilene, Texas on U.S. Interstate 20. The bank was originally chartered in 1885. The bank operates from four additional branch locations, two in Abilene, Texas; one in Clyde, Texas; and one in Brownwood, Texas. On-site Automated Teller Machines (ATMs) are available at all branch locations. An off-site ATM is operated in the city of Baird in the West-To-Go convenience store.

FNB is owned by First Baird Bancshares, Inc., which is a multi-bank holding company. The bank is affiliated through common ownership with the following banks: First National Bank of Weatherford, First National Bank of the Mid-Cities, Bedford, and First National Bank in Munday. All of these banks are located in Texas.

The corporate structure of neither FNB nor the holding company has changed since the prior CRA examination and no changes are currently planned. Primary competition comes from numerous other financial institutions in both Taylor and Callahan Counties.

The most recent CRA examination was performed as of November 26, 2001. The bank received a satisfactory rating at that examination. There are no legal or financial impediments to FNB's ability to meet the credit needs of its assessment area.

FNB is a full-service bank offering traditional products and services. Competition consists of local community banks as well as other non-financial institutions in the immediate and surrounding counties. As of March 31, 2007, the bank's total assets were \$178 million, total

gross loans were \$147 million, and total deposits were \$162 million. The following table depicts the loan portfolio by major loan product type as of March 31, 2007:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
1-4 Family Residential Real Estate	\$20,669	13.9%
Consumer Loans	\$16,994	11.5%
Commercial Real Estate	\$43,409	29.4%
Commercial	\$52,106	35.3%
Agricultural Production/Other Agricultural	\$10,476	7.1%
Farmland Real Estate	\$3,820	2.6%
Other Loans	\$291	0.2%
<b>Total</b>	<b>\$147,765</b>	<b>100.0%</b>
Percentage of Loans to Total Assets 83%		

## **DESCRIPTION OF ASSESSMENT AREAS**

FNB has two separately defined AAs, although they are contiguous. FNB has designated its primary AA as Taylor and Callahan Counties, Texas. The AA is legal and meets the requirements of the regulation. Approximately 140,000 persons live within the AA, which is part of the Abilene, Texas Metropolitan Statistical Area. There are a total of 38 Census Tracts (CTs) in the AA. Nine CTs are designated as moderate-income, nineteen CTs are designated as middle-income, eight CTs are designated as high-income, and there are two CTs for which income level is noted as not applicable (N/A). N/A CTs have population, but there is no reported income by the population to allow a designation of low- to upper-income with respect to the area's median income. Such tracts usually are occupied by institutions such as prisons, universities, and so forth. CT 0121.00 is an N/A tract because it only contains the Abilene State School, and CT 0130.00 is an N/A tract because it only contains Dyess Air Force Base.

FNB has also designated a second AA as Brown County, Texas, which is contiguous to the primary AA. This AA is legal and meets the requirements of the regulation. However, this AA is included within the Brownwood, Texas Micropolitan Statistical Area (MicroSA), and therefore cannot be combined with the primary AA. This AA is considered an extended non-metropolitan AA, and loans and deposits attributed to the Brownwood branch represent less than 10% of FNB's totals in each category. Therefore, our analysis of FNB's performance is only based on the Taylor and Callahan County AA.

The following table reflects the Taylor and Callahan Counties assessment area demographics:

<b>Demographic and Economic Characteristics of the Assessment Area *</b>	
<b>Population</b>	
Number of Families	36,513
Number of Households	52,334
<b>Geographies</b>	
# Low-Income CT's	0
# Moderate-Income CT's	9
# Middle-Income CT's	19
# Upper-Income CT's	8
# Unknown-Income CT's	2
<b>Median Family Income (MFI)</b>	
2000 MFI for Assessment Area	\$42,075
2006 HUD Adjusted MFI	\$47,500
<b>Economic Indicators</b>	
Unemployment Rate	3.77%
2000 Median Housing Value	\$57,972
% of Households Below Poverty Level	14.03%

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

Primary credit needs in the AA continue to relate to the commercial and agricultural sectors of the local economy. Lending is focused on agricultural production, small business working capital, and a broad range of consumer needs, including 1-4 family home purchase loans. Major employers in the area include Dyess Air Force Base, local universities, local school districts, medical facilities, and numerous small businesses and agricultural related businesses.

We considered information from one community contact in the AA that was made in conjunction with this examination. According to this contact, the most pressing need in the AA is for quality affordable housing, and more access to banking services in the northern section of Abilene. We identified no complaints against the bank regarding CRA performance.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB's performance is satisfactory. Conclusions with respect to the following three performance criteria, Lending in Assessment Area, Lending to Borrowers of Different Incomes and to Businesses of Different Sizes, and Geographic Distribution of Loans, are based on a sampling of the institution's loan portfolio. Examiners reviewed commercial loans and residential real estate loans originated between January 2005 and December 2006. Our sample included 20 commercial and 125 residential real estate loans.

### 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 86.84%. There are two other financial institutions in the area, which comprise the primary competition, as detailed in the table below. Please note that these banks are listed in descending order of average LTD ratios, but no ranking is intended or implied.

Institution	Location	Average Loan/Deposit Ratio
<i>The First National Bank of Baird</i>	<i>Baird, Texas</i>	<i>86.84%</i>
First Financial Bank, N.A.	Abilene, Texas	51.39%
American State Bank	Lubbock, Texas	42.90%

### Lending in Assessment Area

The bank's lending within the assessment area exceeds the standards for satisfactory performance.

This criterion quantifies what proportion of the bank's lending activity is within its AA. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own AA, would be considered less than satisfactory. However, FNB's lending efforts are concentrated within its AA.

At this time, FNB does not track business loans by location. To assess the bank's performance in this area, we were required to sample a portion of the loan portfolio. We used the sample noted above to assess the bank's performance for this criterion. The sample for the 1-4 family home purchase loans included all such loans reported on the bank's HMDA LAR for 2005 and 2006. Based on our sample results, a significant 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								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Loans	93	75%	\$4,825	72%	32	25%	\$1,881	28%
Business Loans	16	80%	\$1,066	93%	4	20%	\$78	7%
<b>Total Reviewed</b>	<b>109</b>	<b>75%</b>	<b>\$5,891</b>	<b>75%</b>	<b>36</b>	<b>25%</b>	<b>\$1,959</b>	<b>25%</b>

### 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 this CRA rating criterion. To assess the bank's efforts, we used the sample of loans noted above. Our analysis, noted in the tables below, indicates the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Overall, we concluded that the bank's performance is generally proportionate to the income levels of the families and households within the AA, and the credit needs of low- and moderate-income individuals are being met. Also, FNB meets the credit needs of the small businesses located in the AA.

To further validate the bank's good record of lending to low- and moderate-income individuals, we reviewed a trial balance of loans originated with a balance of \$1,000 or less, for the loan sample years of 2005 and 2006. During this period, the bank originated 89 loans totaling \$62,796. These loans range from a low of \$153 to a high of \$1,000. Historically, individuals receiving these loans fall into either the low- or moderate-income categories. These loans are spread throughout the AA and are primarily small, consumer purpose loans. The bank has no minimum loan amount.

#### *1-4 Family Real Estate Lending*

1-4 FAMILY REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18%		18%		24%		40%	
	% of Number	% of Amount						
Sample Totals	4%	2%	18%	13%	15%	24%	60%	59%

*Business Lending*

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES</b>		
<b>Business Revenues</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
% of AA Businesses *Thirty percent of assessment area businesses did not report revenue figures	65%	5%
% of Bank Loans in AA #	65%	30%
% of Bank Loans in AA \$	49%	46%

Financial information was not available on 5% of the number and 5% of the dollar of our sample.

**Geographic Distribution of Loans**

The bank’s loan distribution, to the different geography income levels, meets the standards for satisfactory performance. The distribution of loans originated follows a pattern indicative of an institution seeking to serve the credit needs of the assessment area.

As noted before, the bank does not track business loans by location; therefore, the sample noted earlier was used to assess the bank’s effort in this criterion. Based on our analysis, the bank’s lending efforts reasonably penetrate into the geographies of the different income levels. The results of our analysis are illustrated in the following tables.

*Consumer Lending*

<b>Geographic Distribution of Residential Real Estate Loans</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan type</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>	<b>% of AA Owner Occupied Housing</b>	<b>% of Number of Loans</b>
<b>Sample</b>	0%	0%	14%	12%	54%	68%	32%	20%

Source: Loan sample; U.S. Census data

## *Business Lending*

<b>Geographic Distribution of Commercial Loans</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Sample	0%	0%	22%	5%	52%	75%	25%	20%

Source: Loan sample; Dunn & Bradstreet data

### **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 this information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation.