



SMALL BANK

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

PUBLIC DISCLOSURE

June 04, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Tahoka
Charter Number 8597**

**1601 South First Street
Tahoka, TX 79373**

**Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289 Suite 108
Lubbock, TX 79424**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The First National Bank of Tahoka (FNB) has a satisfactory record of meeting community credit needs. This is based on the following:

- The bank's loan-to-deposit ratio is reasonable and averaged 37 percent during the evaluation period. Such performance is reasonable given the available loan demand in the assessment area.
- A substantial majority of FNB's loans are within its assessment area.
- FNB distribution of loans to farms with gross revenues of less than \$1 million is excellent. The bank has a reasonable penetration of loans to individuals and families of different income (including low- and moderate-income) levels.

DESCRIPTION OF INSTITUTION

FNB is located in the rural community of Tahoka, Texas, which is approximately 30 miles south of Lubbock. FNB is an intrastate bank with one main office location, which includes a drive-up facility. FNB has one automatic teller machine located in a local convenience store. The bank is wholly owned by Tahoka First Bancorp, Inc. (TFB), a one-bank holding company located in Tahoka, Texas. There is no material difference between the assets of the holding company and the bank.

As of March 31, 2007, FNB had total assets of \$55 million, with net loans and leases comprising 25 percent of this total. The bank's primary loan products include agricultural, residential real estate, and consumer loans. The following chart details a breakdown of FNB's loan portfolio as of March 31, 2007.

| Loan Portfolio Composition as of March 31, 2007 | | |
|--|-----------------|---------------|
| Loan Category | \$ (000) | % |
| Agricultural Production | 3,685 | 26.87 |
| RE Residential (1-4 family) | 2,891 | 21.08 |
| Consumer | 2,800 | 20.42 |
| RE Farmland | 1,603 | 11.69 |
| Commercial and Industrial | 1,526 | 11.13 |
| RE Nonfarm/Nonresidential | 709 | 5.17 |
| Real Estate (RE) Construction | 294 | 2.14 |
| Other | 207 | 1.50 |
| Total | 13,715 | 100.00 |

Bank lobby and drive-through services are provided Monday through Friday. Based on its financial condition, the local economy, product offerings, and competition, FNB has the ability to meet the various credit needs in its community. Management and the Board's primary focus are to serve the agricultural, commercial, and consumer customers in Lynn County. The bank was rated "Satisfactory" at the last CRA examination on August 15, 2002. No legal

impediments or other factors hinder FNB’s ability to provide credit in its assessment area. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF LYNN COUNTY

FNB has designated Lynn County as its assessment area. Tahoka is centrally located in Lynn County and is the county seat. Principal cities located within the assessment area include O’Donnell, and Wilson. Smaller communities also located within the assessment area include Grassland and New Home. Specific demographic data and economic data for this area are listed below.

| Demographic and Economic Characteristics of Lynn County | |
|--|--------|
| Population | |
| Number of Families | 1,785 |
| Number of Households | 2,366 |
| Geographies | |
| Number of Census Tracts | 3 |
| % Low-Income Census Tracts | 0.00 |
| % Moderate-Income Census Tracts | 0.00 |
| % Middle-Income Census Tracts | 100.00 |
| % Upper-Income Census Tracts | 0.00 |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | 32,894 |
| 2000 Census MFI | 36,380 |
| 2004 & 2005 Non-MSA Updated MFI | 42,000 |
| 2006 Non-MSA Updated MFI | 43,100 |
| Economic Indicators | |
| Unemployment Rate | 4.7 |
| 2006 Median Housing Value | 39,537 |
| % of Households Below Poverty Level | 22.95 |

The bank’s assessment area is comprised of three contiguous census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Based on 2000 Census data, the assessment area has a total population of 6,550. There are 2,671 housing units in the assessment area, of which 66 percent are owner-occupied, 22 percent are renter-occupied and 12 percent vacant. Approximately 28 percent of total households in the assessment area are considered low-income. In addition, approximately 81 percent of the low-income households are below the poverty level. Moderate-income families approximate 19 percent of the population, while middle- and upper-income families comprise the remaining 53 percent.

The local economy is based on farming. The drought in 2006 had a somewhat negative effect on the local crops, primarily cotton. In 2007 there have been record amounts of rain in the area which should positively affect the area crops and the local economy. The largest non-agricultural employers within the assessment area include Lynn County; Lyntegar (local electric co-op); the Independent School Districts for Tahoka, New Home, Wilson and O’Donnell; Lynn County Hospital; and Poka Lambro Telephone (local telephone co-op).

Competition is strong and comes from three financial institutions in the assessment area. In addition, Ag Texas Farm Credit Services also has an office in Tahoka.

One community contact was conducted for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The community contact did not identify any unmet credit needs in the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

To evaluate FNB’s lending performance, a sample of 96 loans was reviewed. Major products offered by the bank were sampled and consisted of 37 residential real estate loans, 34 farm loans, and 25 consumer loans. Based on the analysis and consistent with available resources and capabilities, FNB is meeting the credit needs of the assessment area in a satisfactory manner.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly average loan-to-deposit ratio was 37 percent since the prior CRA examination in August 2002. As of March 31, 2007, the bank’s loan-to-deposit ratio was 28 percent. This ratio is lower during the first quarter of the year, due primarily to the bank’s large number of un-funded agriculture loans.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

| LOAN-TO-DEPOSIT RATIO | | |
|--------------------------------------|--|-----------------------------------|
| Institution | Total Assets \$ (000's) (As of 03/31/07) | Average Loan-to-Deposit Ratio* |
| Citizens State Bank, Anton | 30,524 | 61.75% |
| Citizens National Bank of Crosbyton | 34,623 | 37.38% |
| First National Bank of Tahoka | 54,636 | 36.52% |
| Wilson State Bank | 48,880 | 32.99% |

*The average LTD ratio for the four banks is for the period from September 2002 through March 2007.

Lending in Assessment Area

FNB’s lending in their assessment area exceeds the standards for satisfactory performance. A substantial majority of the bank’s loans were made within its assessment area. In order to assess performance, we reviewed a sample of 34 agricultural, 37 residential real estate, and 25 consumer loans originated between January 2004 and December 2006. Our analysis determined that 88.5 percent of the number of loans and 94.6 percent of the dollar amount of loans in the sample were made to borrowers within the bank’s assessment area. The breakdown by loan category is illustrated in the following table.

| LENDING IN THE ASSESSMENT AREA | | | | | | | | |
|---------------------------------------|--------------------|--------|-----------|--------|------------------------|-------|-----------|-------|
| | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| LOAN TYPE | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Farm | 34 | 100.0% | 1,891 | 100.0% | 0 | 0.0% | 0 | 0.0% |
| Residential RE | 35 | 94.6% | 1,093 | 95.9% | 2 | 5.4% | 47 | 4.1% |
| Consumer | 16 | 64.0% | 268 | 66.0% | 9 | 36.0% | 138 | 34.0% |
| Total Reviewed | 85 | 88.5% | 3,252 | 94.6% | 11 | 11.5% | 185 | 5.4% |

Lending to Farms of Different Sizes and Borrowers of Different Income Levels

FNB’s lending to farms and borrowers of different income levels meets the standards for satisfactory performance. The loan portfolio reflects a reasonable distribution among agricultural-related businesses of different sizes and to households and families of various income levels (including low- and moderate-income) within the assessment area. Our analysis included 34 agricultural, 35 residential, and 25 consumer loans originated from January 2004 through December 2006.

Farm Loans - FNB’s primary loan product is farm loans. As seen in the following chart, 100 percent of the number and dollar volume of farm loans sampled were to small farms with gross annual revenues less than \$1 million. This level of performance reflects an excellent penetration of farm loans with revenues less than \$1 million.

| Borrower Distribution of Small Farm Loans in Lynn County | | |
|---|--------------|--------------|
| Farm Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Farms | 100.0% | 0.0% |
| % of Bank Loans in AA # | 100.0% | 0.0% |
| % of Bank Loans in AA \$ | 100.0% | 0.0% |

Residential Real Estate Loans - Our analysis reflects a reasonable penetration of residential real estate loans to low- and moderate-income families. Based on 2000 Census information, 45.7 percent of families in the assessment area are low- and moderate-income. Our review determined that 25.7 percent of residential real estate loans were made to low- and moderate-income families. This is reasonable given that approximately 23 percent of the families in the assessment area are below the poverty level. It would be difficult for families below the poverty level to qualify for residential real estate loans. Forty-seven percent of low- and moderate-income households in the AA are renter occupied. The following chart reflects the results of our selected sample of residential real estate loans originated in FNB’s assessment area.

| Borrower Distribution of Residential Real Estate Loans in Lynn County | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 25.4% | | 20.2% | | 16.7% | | 37.7% | |
| LOANS | % of Number | % of Amount |
| Total | 8.6% | 3.2% | 17.1% | 11.9% | 22.9% | 27.1% | 51.4% | 57.8% |

Consumer Loans - Our analysis reflects a reasonable penetration of consumer loans to low- and moderate-income households. The 2000 Census shows that 46.8 percent of households in the assessment area are low- and moderate income. Consumer loans to low- and moderate-income households comprised 35.5 percent of our total sample. The distribution of consumer loans is near the income characteristics of the assessment area for moderate-income households; however, consumer loan distribution to low-income households is less than census demographics. The primary reason for the lower performance is the high proportion of low-income households that are below the poverty level. The following chart reflects the results of our selected sample of consumer loans originated in FNB's assessment area.

| Borrower Distribution of Consumer Loans in Lynn County | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 28.3% | | 18.5% | | 15.2% | | 38.0% | |
| LOANS | % of Number | % of Amount |
| Total | 17.7% | 9.0% | 17.7% | 13.8% | 23.5% | 34.0% | 41.1% | 43.2% |

Geographic Distribution of Loans

Because no census tracts are identified as low- and 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 Review

We found no evidence of illegal discrimination or other illegal credit practices inconsistent with helping to meet community credit needs.