



SMALL BANK

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

PUBLIC DISCLOSURE

June 29, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Amherst
Charter Number 12619**

**1001 Main Street
Amherst, TX 79312**

**Comptroller of the Currency
Lubbock (West Texas)
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.

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

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

- The bank's loan-to-deposit is reasonable and averaged 22 percent during the evaluation period.
- A substantial majority of FNB's loans are within the bank's assessment area. Based on a sample of loans, 96 percent of the number of loans and 96 percent of the dollar volume of loans were to borrowers within the assessment area.
- FNB has an excellent penetration of loans to farms of different sizes, and individuals of different income (including low- and moderate-income) levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- There have been no complaints with respect to FNB's CRA performance.

DESCRIPTION OF INSTITUTION

FNB is a rural community bank in Amherst, Texas, which is approximately 50 miles northwest of Lubbock. FNB is an intrastate bank with one main office.

As of March 31, 2005, FNB had total assets of approximately \$16 million, with 18 percent in the loan portfolio. The bank is primarily an agricultural lender. The following chart details a breakdown of FNB's loan portfolio as of March 31, 2005.

| Loan Portfolio Composition as of March 31, 2005 | | |
|--|-----------------|---------------|
| Loan Category | \$ (000) | % |
| Agricultural | 829 | 31.71 |
| Commercial & Industrial | 566 | 21.65 |
| Consumer | 495 | 18.94 |
| Other | 300 | 11.48 |
| State and Political Subdivisions | 273 | 10.44 |
| Residential Real Estate | 151 | 5.78 |
| Total | 2,614 | 100.00 |

Source: March 31, 2005 Report of Condition

Bank lobby services are provided Monday through Friday, with banking hours of 9:00 am to 3:00 pm. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its community. The bank was rated "Needs to Improve" at the last examination on July 15, 2002. No legal impediments or other factors hinder FNB's ability to provide credit in its assessment area.

FNB's business strategy is to provide banking services to customers in Lamb County while increasing the long-term value of the owners' investment. FNB's Tier 1 Capital level was \$3.4 million, representing 19.40 percent of adjusted average assets, as of March 31, 2005. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF LAMB COUNTY

FNB is located in the city of Amherst and has designated Lamb County as its assessment area. Lamb County is situated on the northern edge of the South Plains and is located approximately 50 miles northwest of Lubbock. The city of Littlefield is the largest city in Lamb County and is the county seat. Smaller communities also within the assessment area include Earth, Fieldton, Olton, Springlake, and Sudan. Specific demographic data and economic data for this area are listed below.

| Demographic and Economic Characteristics of Lamb County Assessment Area | |
|--|--------|
| Population | |
| Number of Families | 3,998 |
| Number of Households | 5,361 |
| Geographies | |
| Number of Census Tracts/BNA | 5 |
| % Low-Income Census Tracts/BNA | 0 |
| % Moderate-Income Census Tracts/BNA | 20.0 |
| % Middle-Income Census Tracts/BNA | 80.0 |
| % Upper-Income Census Tracts/BNA | 0 |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | 36,380 |
| 2005 HUD-Adjusted MFI | 42,000 |
| Economic Indicators | |
| Unemployment Rate | 2.4 |
| 2004 Median Housing Value | 35,358 |
| % of Households Below Poverty Level | 19.0 |

Source: 2000 Census data and HUD updated income data.

The bank's assessment area is comprised of five 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 14,709. Of this total, approximately 47 percent are below 18 years old or greater than 65 years old. The population level for the assessment area has declined 2.4 percent from the 1990 Census level of 15,072. There are 6,294 housing units in the assessment area, of which 64 percent are owner-occupied, 21 percent are renter-occupied, and 26 percent are vacant. Approximately 25 percent of the families in the assessment area are considered low-income. Moderate-income families approximate 21 percent of the population, while middle- and upper-income families comprise the remaining 54 percent.

The local economy is agricultural based. Depressed crop prices and drought conditions have had a negative impact on the agricultural economy. However, 2004 was a successful crop year for the area. In addition, several large dairy operations have relocated to Lamb County, primarily from California. However due to the size of the dairy operations, small community banks in the area cannot accommodate the lending needs. The largest non-agricultural employers within the

assessment area include Correctional Services Corporation and the area school districts.

Competition is high in the assessment area with seven financial institutions, two credit unions, and a finance company. First Ag Credit also has an office in Littlefield.

Two individuals in the community were contacted 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 individuals indicated that the local economy is declining. One individual indicated that there is a need for affordable low- and moderate-income housing. The individuals also indicated that the local financial institutions are cooperative and diligent in trying to meet the community's credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination is from January 2003 through March 2005, except for the loan-to-deposit ratio. The loan-to-deposit ratio was calculated from September 2002 through March 2005. FNB's performance is satisfactory, and management has been successful in meeting the credit needs of the bank's assessment area, including lending to farms of different sizes and individuals of different income (including low- and moderate-income) levels.

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 ratio was 22.4 percent since the prior CRA examination in July 2002. During the evaluation period, FNB's loan-to-deposit ratio ranged from 18.5 percent to 28.1 percent. The average loan-to-deposit ratio of similarly situated banks within or contingent to the assessment area for the same period was 48.8 percent. Although FNB's loan-to-deposit ratio continues to be lower than similarly situated banks in or near the assessment area, the average represents a 22.7 percent increase from the prior evaluation period.

Traditionally, FNB has primarily been an agricultural lender. The bank's loan-to-deposit ratio has been negatively impacted by the extended drought conditions experienced in Lamb County. In 2004, the area had a successful crop year, which resulted in farmers drawing on their lines of credit and increasing the quarterly loan-to-deposit ratios in 2004. In addition, consumer lending represents a significant segment of the bank's loan portfolio. As of March 31, 2005, approximately 69 percent of the number loans extended by FNB were consumer loans, which tend to be for smaller dollar amounts.

There are two primary factors unique to FNB that mitigate the loan-to-deposit level. The first and most important factor is the significant presence of large depositors who do not have borrowing needs. Individuals with large deposit balances who do not borrow from the bank directly affects the calculation of the loan-to-deposit ratio by increasing the denominator (deposits) without increasing the numerator (loans). As of June 30, 2005, the bank reported \$12.5 million in total deposits. Of the individuals with deposit balances greater than \$50 thousand, approximately 88 percent did not have a lending relationship with FNB during the evaluation period.

In addition, the bank has taken tangible steps to improve its volume of lending activity. FNB has an agreement to participate in loan originations with its correspondent bank in Lubbock. The bank has also pledged financial support to a local small business corporation whose purpose is to provide

professional assistance for individuals for business ventures in Lamb County by providing business management coaching.

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 Ratios | | |
|---|---|--------------------------------------|
| Institution | Total Assets \$ (000's) (As of 03/31/05) | Average Loan-to-Deposit Ratio |
| The First State Bank, Abernathy | 23,788 | 52.64 |
| The First National Bank of Amherst | 16,419 | 22.38 |
| Citizens State Bank, Anton | 31,661 | 62.43 |
| Security State Bank, Farwell | 91,769 | 8.78 |
| Kress National Bank | 25,169 | 38.62 |
| Aimbank, Littlefield | 46,691 | 60.39 |
| Security State Bank, Littlefield | 68,135 | 70.05 |

Source: Institution Reports of Condition from September 2002 to March 2005

Lending in Assessment Area

A substantial majority of the bank's loans were made within its assessment area. In order to assess performance for this criteria, we reviewed 25 agricultural and 25 consumer loans originated between January 2003 and March 2005. Our analysis determined that 96.0 percent of the number of loans and 96.4 percent of the dollar amount of loans in the sample were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following table.

| Lending in Lamb County Assessment Area | | | | | | | | |
|---|---------------------------|----------|------------------|----------|-------------------------------|----------|------------------|----------|
| | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| LOAN TYPE | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Agricultural | 24 | 96.0% | 2,116 | 96.3% | 1 | 4.0% | 82 | 3.7% |
| Consumer | 24 | 96.0% | 131 | 98.5% | 1 | 4.0% | 2 | 1.5% |
| Total Reviewed | 48 | 96.0% | 2,247 | 96.4% | 2 | 4.0% | 84 | 3.6% |

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 an excellent distribution among individuals of various income levels (including low- and moderate-income) and farms of different sizes within its assessment area. To perform our analysis, we reviewed income information of 24 agricultural and 24 consumer-purpose loans in the Lamb County assessment area.

Agricultural Loans - Based on 2004 Business Demographic Data, there are 351 farms within the Lamb County assessment area. Of this number, 90.3 percent of farms reported revenues less than or equal to \$1 million. Of the loans in the agricultural purpose sample, 100 percent were to farms reporting annual revenues below \$1 million. This level exceeds the assessment area information and reflects an excellent penetration of agricultural loans to small farms. The following chart reflects the results of our selected sample of agricultural loans originated in this assessment area.

| Borrower Distribution of Loans to Farms in Lamb County Assessment Area | | | |
|---|--------------|--------------|----------------------|
| Farm Revenues | ≤\$1,000,000 | >\$1,000,000 | Revenue Not Reported |
| % of AA Farms | 90.3% | 6.0% | 3.7% |
| % of Bank Loans in AA by # | 100.0% | 0.0% | 0.0% |
| % of Bank Loans in AA by \$ | 100.0% | 0.0% | 0.0% |

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis reflects an excellent penetration of consumer loans to low- and moderate-income households in the Lamb County assessment area. Based on 2000 Census Information, 44.4 percent of households in the assessment area are low- and moderate income. Our review determined that 91.6 percent of consumer loans were made to low- and moderate-income households. The distribution of consumer loans exceeds the income characteristics of the assessment area for low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in this assessment area.

| Borrower Distribution of Consumer Loans in Lamb County Assessment Area | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 24.8% | | 19.6% | | 18.9% | | 36.7 | |
| LOANS | % of Number | % of Amount |
| Total | 45.8% | 25.9% | 45.8% | 60.9 | 0.0% | 0.0% | 8.4% | 13.2% |

Source: Loan sample; 2000 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans within the census tracts is reasonable given the bank's business strategy and location. Our analysis included 24 agricultural and 24 consumer loans originated during 2003 through March 2005. For both loan types sampled, there was limited performance in the moderate-income census tract. The moderate-income census tract includes the city of Littlefield, where several financial institutions have offices.

Agricultural Loans - The performance in the moderate-income census tract was somewhat lower than the demographic composition of the assessment area. The moderate-income census tract is located approximately six miles southeast of the city of Amherst. The following chart reflects the results of our selected sample of small-farm loans originated in FNB's assessment area.

| Borrower Distribution of Loans to Farms in Lamb County Assessment Area | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Farms | 0.0% | | 19.7% | | 80.3% | | 0.0% | |
| LOANS | % of Number | % of Amount |
| Total | 0.0% | 0.0% | 12.5% | 19.20% | 87.5% | 80.8% | 0.0% | 0.0% |

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis indicated that the geographic distribution of loans in the moderate-income area for consumer loans did not reflect the make-up of this assessment area. As previously detailed, the moderate-income area is located approximately six miles southeast of the City of Amherst. 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 Lamb County Assessment Area | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 0.0% | | 19.2% | | 80.8 | | 0.0% | |
| LOANS | % of Number | % of Amount |
| Total | 0.0% | 0.0% | 8.0% | 9.1% | 92.0% | 90.9% | 0.0% | 0.0% |

Source: Loan sample; 2000 U.S. Census data.

Responses to Complaints

No complaints relating to CRA performance have been received by FNB.

Fair Lending or Other Illegal Credit Practices Review

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