



SMALL BANK

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

PUBLIC DISCLOSURE

June 25, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Ballinger
Charter Number 3533**

**911 Hutchins Avenue
Ballinger, TX 76821**

**Comptroller of the Currency
San Antonio - North Field Office
10101 Reunion Place, Suite 402
San Antonio, TX 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 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 Ballinger's (FNBB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA).

- The bank's loan-to-deposit (LTD) ratio is satisfactory and averaged 64% during the evaluation period. Such performance is reasonable given the available loan demand in the AA.
- A substantial majority of FNBB's loans are within its AA.
- FNBB's loan portfolio reflects an excellent distribution among individuals of various income levels and commercial and agricultural businesses of different sizes within the AA.
- There have been no complaints with respect to FNBB's CRA performance.

DESCRIPTION OF INSTITUTION

FNBB is a community bank headquartered in Ballinger, Texas, which is approximately 40 miles northeast of San Angelo and 60 miles southwest of Abilene. The bank operates one main office in the city of Ballinger, a drive-through facility, and two automatic teller machines (ATMs). One ATM is located in Winters, Texas, 15 miles northeast of Ballinger. During June 2004, FNBB opened a branch in the city of San Angelo. This is a full-service facility with a drive-through and an ATM. The ATM is located in the branch's drive-through. None of FNBB's ATMs accept deposits.

During the evaluation period FNBB moved an ATM that was located in a convenience store in Ballinger to the main bank's drive-through facility. The bank moved the ATM to provide this service at its main bank office. The ATM remained in the same middle-income census tract (CT).

As of March 31, 2007, FNBB had total assets of \$105 million with 56% centered in the loan portfolio. The following chart details a breakdown of FNBB's loan portfolio as of March 31, 2007.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	11,726	20.0
Commercial and Industrial	10,234	17.5
RE Residential (1-4)	8,890	15.3
RE Farmland	7,538	12.9
RE Non-Farm Non-Residential	7,468	12.9
Consumer	5,925	10.1
Agricultural Production	4,530	7.8
Other	2,152	3.5
Total	58,463	100

Source March 31, 2007 Call Report

The bank is owned by the multi-bank holding company Texas Country Bancshares, Inc. The bank is affiliated through common ownership with: Brady National Bank, Brady, Texas; Citizens Bank, National Association, Abilene, Texas; and Uvalde National Bank, Uvalde, Texas.

Bank lobby and drive-through services are provided Monday through Saturday. FNBB has a 24-hour telephone response system that allows customers to obtain account balance information and transfer funds between accounts. FNBB faces strong competition from other financial institutions located in Ballinger and San Angelo. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNBB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on May 19, 2003. No legal impediments or other factors hinder FNBB’s ability to provide credit in its AA.

DESCRIPTION OF ASSESSMENT AREAS

The bank has selected Tom Green and Runnels County as its AA. During the previous CRA examination Runnels County was the only AA. With the June 2004 opening of a branch in San Angelo, FNBB has added Tom Green County as part of its AA.

The bank’s main office is located in Runnels County. Prior to 2003 Runnels County consisted of 5 middle-income CTs. This changed in 2003 and now the County is made up of 4 CTs. One CT is designated as moderate-income and the other three as middle-income.

Tom Green County, part of the San Angelo MSA, is where the bank’s only branch is located and consists of twenty-three CTs. One CT is designated low-income, four are moderate-income, thirteen are middle-income, and the remaining five are upper-income.

The AA designations meet the requirements of the regulation and do not arbitrarily exclude any low-to moderate-income (LMI) geographies.

Demographic and Economic Data on the Runnels County Assessment Area

Ballinger is the county seat of Runnels County. Other communities located within the county include Winters, Rowena, Lowake, Norton, Wingate, and Hatchel. Specific demographic data for this area is listed on the following page.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF RUNNELS COUNTY	
Population	
Number of Families	3,203
Number of Households	4,442
Geographies	
Number of Census Tracts	4
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	25%
% Middle-Income Census Tracts	75%
% Upper-Income Census Tracts/	0%
Median Family Income (MFI)	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
2005 HUD-Adjusted MFI	\$42,000
2004 HUD-Adjusted MFI	\$42,000
Economic Indicators	
Unemployment Rate	2.43%
2006 Median Housing Value	\$43,166
% of Households Below Poverty Level	19.34%

Based on the 2000 Census data, Runnels County has a population of approximately 11,500. There are 5,400 housing units in the AA of which 63% are owner-occupied, 19% renter-occupied and 18% vacant. The local economy is based on farming, ranching, and small retail businesses. The largest non-agricultural employers in the area are Mueller Supply and Buddy's Plant Plus Corporation, manufacturer of metal buildings and plant fertilizer, respectively. Approximately 19% of the households in the AA are below the poverty level.

In order to gather more current information on the nature of the community and potential lending opportunities within the AA, we contacted one community leader during this examination. This contact was the Runnels County Commissioner. The contact stated that there were no unmet credit needs in the city of Ballinger. The contact further stated that FNBB is active in the community and responsive to local credit needs.

Demographic and Economic Data on the Tom Green County Assessment Area

The city of San Angelo is the county seat of Tom Green County. Specific demographic data for this area is listed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF TOM GREEN COUNTY	
Population	
Number of Families	27,073
Number of Households	39,531
Geographies	
Number of Census Tracts	23
% Low-Income Census Tracts	4.4%
% Moderate-Income Census Tracts	17.4%
% Middle-Income Census Tracts	56.5%
% Upper-Income Census Tracts/	21.7%
Median Family Income (MFI)	
2000 MFI for AA	\$39,508
2006 HUD-Adjusted MFI	\$46,800
2005 HUD-Adjusted MFI	\$45,600
2004 HUD-Adjusted MFI	\$45,600
Economic Indicators	
Unemployment Rate	3.5%
2006 Median Housing Value	\$64,697
% of Households Below Poverty Level	14.91%

Based on the 2000 Census data, Tom Green County has a population of approximately 104,000. There are 43,916 housing units in the AA of which 58% are owner-occupied, 32% renter-occupied and 10% vacant. The local economy is based on the health/medical industry, oil and gas, construction and agriculture. The largest employers are Goodfellow AFB, Ethicon, Reese Albert, and local hospitals. Approximately 15% of AA households are below the poverty level.

During this examination, the community contact was an executive officer of the Tom Green County Home Builders Association. The contact stated that there were no unmet credit needs. Per the community contact, FNBB is responsive to local credit needs and is active in the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBB's LTD ratio of 60% as of March 31, 2007, is considered satisfactory, given its asset size, financial condition, and lending opportunities in the AA. The average LTD ratio over the past 19 quarters was 64%, which has remained relatively stable from the prior CRA examination's average ratio of 62%. The LTD ratio is reasonable when compared with other banks headquartered in the

AA. The average LTD of the other similarly situated banks ranges from 25.4% to 78%. The asset size and LTD ratio for FNBB and its competing banks during this period are listed below.

INSTITUTION	ASSETS AS OF 3/31/07*	AVERAGE LTD RATIO %**
Ballinger National Bank	39,000	43.33
Citizens State Bank, Miles	43,000	65.86
Security State Bank, Wingate	29,000	50.89
The First National Bank of Mertzton	154,000	25.42
The First National Bank of Sonora	162,000	78.01
<i>First National Bank Ballinger</i>	<i>105,000</i>	<i>64.45</i>

*Asset sizes of institutions are in thousands (000's).

**The average LTD ratio is based on the period between July 2002 and March 2007.

Lending in Assessment Area

A substantial majority of the bank's loans are made within its AA. In order to assess performance for these criteria, we reviewed a sample of 47 commercial, 45 consumer, and 20 agricultural loans originated during 2004 through 2006. Our analysis determined that 91% of the number and 92% of the dollar amount of commercial loans were made within the AA. We further determined that 87% of the number and 83% of the dollar amount of consumer loans were made within the AA. Finally, 95% of the number and 97% of the dollar amount of agricultural loans were made within the AA.

TOTAL LOANS REVIEWED								
	<i>In Assessment Area</i>				<i>Out of Assessment Area</i>			
<i>LOAN TYPE</i>	<i>#</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$ (000s)</i>	<i>%</i>
Commercial	43	91	2,973	92	4	9	251	8
Consumer	39	87	119	83	6	13	25	17
Agricultural	19	95	902	97	1	5	30	3
Total Reviewed	101	90	3,994	93	11	10	306	7

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

FNBB's loan portfolio reflects an excellent distribution among individuals of various income levels and commercial and agricultural businesses of different sizes within the AA. Our analysis included a sample of 45 consumer, 47 commercial, and 20 agricultural loans originated during the period between 2004 and 2006. The loan sample was broken down between the two AAs.

Runnels County Assessment Area

Our analysis reflected good consumer loan penetration and distribution to LMI households. Based on the 2000 Census information for Runnels County, 44% of AA households are LMI households. Our review determined that 69% of consumer loans were made to LMI households. The following chart reflects the results of our selected sample of consumer loans originated in Runnels County AA.

CONSUMER								
<i>BORROWER INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	29.3		14.9		20.8		35.0	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
<i>Total</i>	47.4	35.9	21.1	19.9	15.8	27.5	15.7	16.7

Small businesses are defined as having annual gross revenues of \$1 million or less. The bank's record of lending to small businesses, both farm and non-farm related, is excellent. Management continues to focus on providing loans that will enhance the local economy. The following charts reflect the results of our selected sample of commercial loans originated in Runnels County AA.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - COMMERCIAL		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95.5	4.5
% of Bank Loans in AA #	95.7	4.3
% of Bank Loans in AA \$	97.4	2.6

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - AGRICULTURAL		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	97.9	2.1
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

Tom Green County Assessment Area

Based on our review, the bank's level of lending to moderate-income households exceeds area demographics. However, the percentage of loans made to low-income households did not meet the area demographics. Approximately 23% AA households are low-income and only 10% of the bank's loans were made to low-income households. This can be explained in part by the poverty level in the AA. According to 2000 census information, 15% of households were below the poverty

level. This prevents potential borrowers from meeting the bank’s credit criteria. Additionally, the San Angelo market is very competitive, which prevents the bank from making more loans to low-income households. The following chart reflects the results of our selected sample of consumer loans originated in Tom Green County AA.

CONSUMER								
<i>BORROWER INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	23.2		16.5		19.4		40.9	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	10.0	2.3	30.0	27.7	15.0	8.4	45.0	61.6

FNBB’s level of lending to small business is excellent. The percentage of the number and of the amount of loans originated in the AA is in line with area demographics. The following chart reflects the results of our selected sample of commercial loans originated in Tom Green County AA.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - COMMERCIAL		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93.6	6.4
% of Bank Loans in AA #	90	10
% of Bank Loans in AA \$	98	2

Geographic Distribution of Loans

During the previous CRA examination conducted during May 2003, an analysis of the bank’s geographic distribution of loans was not performed as this analysis would not provide any meaningful information as all the CTs in the AA were designated as middle-income. However, with the 2003 changes in CTs and the addition of Tom Green County to the AA, the bank’s AA now includes LMI CTs. Therefore, an analysis of the geographic distribution of the bank’s loans was performed for this CRA examination.

Runnels County Assessment Area

FNBB’s consumer and commercial lending to individuals and businesses in moderate-income CTs in Runnels County did not meet the AA demographics. The AA’s only moderate-income CT includes part of the city of Winters, Texas. Based on 2000 census data, 23.5% of AA households and 16.2% of AA non-farm related businesses are located in moderate-income CTs. However, only 5.5% of consumer loans and 4.4% of commercial loans were made to individuals and businesses, respectively, located in moderate-income CTs. Three other banks are headquartered or have branches in this CT. The high level of competition prevents FNBB from making many loans in this

CT. The following table reflects the results of our geographic distribution testing of Runnels County AA.

CONSUMER								
<i>CT INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	0		23.5		76.5		0	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
<i>Total</i>	0	0	5.3	5.0	94.7	95.0	0	0

BUSINESSES - COMMERCIAL								
<i>CT INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	0		16.2		83.8		0	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
<i>Total</i>	0	0	4.4	1.0	95.6	99.0	0	0

The percentage of AA farming businesses located in a moderate-income census tract is minimal. FNBB had one farming customer in the city of Winters, which is part of the AA's only moderate-income CT, but the borrower took his business to another financial institution. As mentioned before, the stiff level of competition in Winters prevents the bank from getting much loan business in the area.

BUSINESSES - AGRICULTURAL								
<i>CT INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	0		3.5		96.5		0	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
<i>Total</i>	0	0	0	0	100	100	0	0

Tom Green County Assessment Area

FNBB's consumer lending to individuals in LMI CTs in Tom Green County did not meet area demographics. According to 2000 census information, 19% of AA households are located in LMI CTs. However, based on our sample, the bank did not make any loans to households located in these CTs. This is due to the bank's location in relation to LMI CTs and the degree of competition in the San Angelo market. The LMI CTs are located on the opposite side of the city in relation to the bank's location. Additionally, there are at least four other banks located in or around the LMI CTs. FNBB's location and the presence of competitor banks in LMI CTs prevents FNBB from making loans in LMI CTs. The following table reflects the results of our geographic distribution test of

consumer loans for Tom Green County.

CONSUMER								
<i>CT INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	1.4		18.3		50.4		29.9	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
<i>Total</i>	0	0	0	0	60.0	51.2	40	48.8

FNBB’s level of commercial lending to businesses in LMI CTs is satisfactory. Our sample indicated 15% of bank small business loans were to borrowers located in moderate-income tracts. This level of lending is in line with area demographics which shows 17.5% of AA businesses are located in LMI CTs. However, in terms of dollar amount only 3% of AA loans were made to LMI CTs. The reason for this is the bank has a good penetration of loans to businesses in LMI CTs but the amount of the loans is small. This is especially true when compared to the dollar amount of loans made to businesses located in middle- and upper-income CTs.

BUSINESSES - COMMERCIAL								
<i>CT INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	2.2		15.3		53.5		29.0	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
<i>Total</i>	0	0	15.0	2.9	45.0	46.4	40.0	50.7

Responses to Complaints

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

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.