



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 11, 2011**

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

The First National Bank of Quitaque  
Charter Number 11706

320 East Main Street  
Quitaque, TX 79255-0000

Office of the Comptroller of the Currency

LUBBOCK (WEST TEXAS) Field Office  
5225 South Loop 289 Suite 108  
Lubbock, TX. 79424-1319

**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 Quitaque (FNB) has a satisfactory record of meeting community credit needs. We based our conclusion on FNB's lending practices. We evaluated these practices through review of samples of the bank's primary loan products. The rating is based on the following findings:

- FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs in the assessment area (AA). The ratio has averaged 49.16 percent since the last CRA examination.
- A majority of the bank's loans, 70 percent by number and 80 percent by dollar volume, are to customers who live or operate their business within the AA.
- FNB has reasonable penetration to borrowers of various income levels and to farms of different sizes.
- An analysis of the geographic distribution of loans showed reasonable penetration in moderate-income geographies.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses FNB's record of meeting the credit needs of the community in which it operates. We evaluated FNB under the small bank performance criterion, which includes five performance criteria: the loan-to-deposit ratio, lending within the AA, lending to borrowers of different incomes and to farms of different sizes, geographic distribution of loans, and responses to CRA-related complaints. The loan sample consisted of 30 farm loans and 30 consumer loans originated between July 1, 2005 and January 31, 2011.

## **DESCRIPTION OF INSTITUTION**

FNB is located in Quitaque, Texas, a community approximately 100 miles northeast of Lubbock in Briscoe County. FNB is an intrastate bank with one main office. FNB was chartered in 1920. The bank is wholly owned by Quitaque National Corporation of Delaware, which is owned by Quitaque National Corporation.

As of December 31, 2010, FNB had total assets of approximately \$44.13 million, with 46.10 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 December 31, 2010.

<b>Loan Portfolio Composition as of December 31, 2010</b>		
<b>Loan Type</b>	<b>\$ (000)</b>	<b>%</b>
Agriculture	12,969	63.75
Commercial	2,457	12.08
Consumer	2,353	11.57
Agriculture Real Estate	2,330	11.45
Commercial Real Estate	149	0.73
Residential Real Estate	51	0.25
Other	35	0.17
<b>TOTAL</b>	<b>20,344</b>	<b>100.00%</b>

*Source: December 31, 2010 Report of Condition*

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. The bank was rated “Satisfactory” at the last CRA examination on August 29, 2005. No legal impediments or other factors hinder FNB’s ability to provide credit in its AA.

FNB’s business strategy is to provide outstanding banking services to customers in Briscoe, Swisher, and Hall Counties, while increasing the long-term value of the owners’ investment. FNB’s Tier 1 leverage capital was 15.41 percent as of December 31, 2010. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB has designated Briscoe, Swisher, and Hall Counties as its AA. This meets the regulatory requirements of the Act as they consist of whole geographies and do not reflect any illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. Briscoe and Swisher Counties have only middle-income census tracts. Hall County contains two moderate-income census tracts.

FNB is located in the city of Quitaque, in the southeast portion of Briscoe County. Briscoe County is situated approximately 95 miles southeast of Amarillo on the southern edge of the High Plains. Silverton, the county seat, is the largest community in the county. Silverton is located in the southwest portion of the county. Both communities have banking facilities.

Swisher County is situated approximately 50 miles directly south of Amarillo. Communities located in this portion of the AA include Claytonville, Kress, Happy, Lakeview, Tulia, and Vigo Park. Financial institutions in this county are located in the communities of Kress, Happy, and Tulia.

Hall County is situated approximately 100 miles southeast of Amarillo. Communities located in this portion of the AA include Turkey, Estelline, and Memphis. This county has two financial institutions located in the county seat of Memphis.

Based on 2000 Census data, the AA has a total population of 13,950. There are 6,309 housing units in the AA, of which 59.72 percent are owner-occupied, 22.65 percent are renter-occupied,

and 17.63 percent are vacant. Approximately 23.17 percent of the families in the AA are considered low-income. Moderate-income families approximate 20.87 percent of the population, while middle- and upper-income families comprise the remaining 55.96 percent. The following table shows demographic data:

Demographic and Economic Characteristics of Quitaque Assessment Area	
Population	13,950
Number of Families	3,694
Number of Households	5,194
Geographies	
Number of Census Tracts/BNA	6
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	33.3
% Middle-Income Census Tracts/BNA	66.7
% Upper-Income Census Tracts/BNA	0
Median Family Income (MFI)	
2006 MFI for AA	43,100
2010 HUD-Adjusted MFI	46,500
Economic Indicators	
Unemployment Rate	3.5
2010 Median Housing Value	35,585
% of Households Below Poverty Level	18.54

Source: 2000 Census data and HUD updated income data

The local economy is agricultural based, centered in cattle and growing crops. Crops include cotton, wheat, and milo. Favorable weather conditions and high crop prices have positively impacted the local economy in the recent past.

The largest non-agricultural employers within the AA include the school districts and the prison at Tulia. In Quitaque and Briscoe County, tourism plays an important role as a large employer is Caprock Canyon State Park. There are also several small manufacturing businesses in Tulia and Quitaque.

Competition for loans is high in the AA, especially for agricultural loans. This includes banks or branches of state or national associations in Tulia, Memphis, Kress, and Silverton, as well as the Production Credit Association in Tulia. Banks or branches in communities just outside the AA, but in close proximity to Quitaque, also provide competition.

Discussions with a representative from the community, and with bank management, indicate a limited supply of residential real estate in Quitaque. FNB makes home purchase loans. Because of the limited number of homes on the market and availability of special programs offered by other institutions with large mortgage banking departments, the number of home purchase loans made by FNB is very limited.

One individual in the community was interviewed 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 individual indicated that the local economy has improved with increased crop values, but remains slightly depressed. The individual

indicated the local financial institution is very cooperative and diligent in trying to meet the community’s credit needs, with several members of the bank’s staff participating and chairing community activities.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation period for this CRA examination is from July 1, 2005 through January 30, 2011. This time period uses the most current 2000 U.S. Census data in the analysis. The loan-to-deposit ratio was calculated from the date of the last CRA evaluation, which is from the beginning of third quarter 2005 through the end of fourth quarter 2010. FNB’s performance under the CRA is satisfactory, and management has been successful in meeting the credit needs of the bank’s AA, including lending to individuals of different income (including low-and moderate-income) levels and to farms of different sizes.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is reasonable given the bank’s size, financial condition, and the AA's credit needs. The bank’s quarterly average loan-to-deposit ratio was 49.16 percent since the prior CRA examination in 2005. The average loan-to-deposit ratio of similarly situated banks within or contiguous to the AA for the same period was 48.53 percent.

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

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 12/31/10)	Average Loan-to-Deposit Ratio
First State Bank, Abernathy	22,172	53.27
First National Bank, Floydada	103,170	42.34
Kress National Bank, Kress	39,534	53.30
First National Bank, Muleshoe	107,010	33.56
<b>First National Bank, Quitaque</b>	<b>44,125</b>	<b>49.16</b>

Source: Institution Reports of Condition from September 2005 to December 2010

### Lending in Assessment Area

A majority of the bank’s loans were made within its AA. In order to assess performance for this criterion, we reviewed 30 farm loans and 30 consumer loans originated between July 2005 and January 2010. Our analysis determined that 70 percent of the number of loans and 80 percent of the dollar amount of loans in the sample were extended within the bank’s AA. The breakdown by loan category is illustrated in the following table.

Lending in the Briscoe, Swisher, and Hall Counties AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	

Consumer	20	67%	10	33%	30	189	74%	67	26%	256
Agriculture	22	73%	8	27%	30	1,171	81%	268	19%	1,439
Totals	42	70%	18	30%	60	1,360	80%	335	20%	1,695

Source: Sample loans used for CRA performance analysis

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

FNB’s loan portfolio reflects a satisfactory penetration among individuals and families of various income levels (including low- and moderate-income) and farms of different sizes within the AA. To perform our analysis, we reviewed income information of 22 farm loans and 20 consumer loans in the Briscoe, Swisher, and Hall Counties AA.

Farm Loans – Based on 2010 demographic data, there are 257 agricultural operations with reported revenues located within the AA. Of this number, 97.31 percent are small farms which reported revenues less than or equal to \$1 million. The majority of loans selected in the sample of agricultural loans were to small farms. This level is in line with the demographic information and reflects a reasonable penetration of loans to small farms. The following chart reflects the results of our review of farm loans originated in the AA.

Borrower Distribution of Farm Loans in the Briscoe, Swisher, and Hall Counties AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Farms	97.31	1.54	1.15	100%
% of Bank Loans in AA by #	86.36	13.64	0	100%
% of Bank Loans in AA by \$	36.18	63.82	0	100%

Source: Loan sample

Consumer Loans – Our review determined that the geographic distribution of loans to low- to moderate-income households is reasonable given the income characteristics of the AA. The bank made 45 percent of consumer loans sampled to low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in the AA.

Borrower Distribution of Consumer Loans in the Briscoe, Swisher, and Hall Counties AA								
Borrower 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
Consumer Loans	25.85	20.00	17.91	25.00	20.50	10.00	35.74	45.00

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

### Geographic Distribution of Loans

FNB’s geographic distribution of loans reflects an overall reasonable dispersion throughout the AA given the bank’s size, primary loan products, and the AA’s demographics. The level of penetration to moderate-income tracts is comparable to demographic information for both farm

and consumer loans sampled.

Farm Loans – The farm loan sample shows reasonable penetration across all geographies. Based on 2000 Census information, 27.31 percent of farms are located in the moderate-income census tracts. Of the loans in our sample, 20 percent were to farms in these tracts located in Hall County.

<b>Geographic Distribution of Farm Loans in the Briscoe, Swisher, and Hall Counties AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farms	0.00	0.00	27.31	20.00	72.69	80.00	0.00	0.00

Source: 2010 U.S. Business Geodemographic Data

Consumer Loans – The geographic distribution of FNB’s consumer loans reflects reasonable penetration of moderate-income areas. Based on 2000 Census information, 31.51 percent of households are located in the moderate-income census tracts. Of the loans in our sample, 20 percent were to households in these tracts.

<b>Geographic Distribution of Consumer Loans in the Briscoe, Swisher, and Hall Counties AA</b>								
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
Consumer Loans	0.00	0.00	31.51	20.00	68.49	80.00	0.00	0.00

Source: 2000 U.S. Census Data

### Responses to Complaints

No complaints relating to CRA performance have been received by FNB. This has a neutral impact on FNB’s overall performance.

### 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.