



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**July 15, 2002**

### **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 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 Needs to Improve.**

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

- The bank's loan-to-deposit ratio is less than reasonable when compared to other area banks.
- A substantial majority of FNB's loans are within its assessment area.
- FNB has an excellent penetration of loans to individuals of different income (including low- and moderate-income) levels and businesses and farms of different sizes.
- 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 located approximately 50 miles northeast of Lubbock. FNB is the only bank in Amherst, and operates one main office. There are no drive-up facilities or automated teller machines. The bank is a wholly owned subsidiary of First Amherst Bancshares, a one-bank holding company located in Amherst, Texas. The holding company reported total assets of \$3.5 million as of December 31, 2001.

As of March 31, 2002, FNB had total assets of \$21 million, with 12 percent in the loan portfolio. The bank is primarily an agricultural lender. The following chart details FNB's loan portfolio as of March 31, 2002.

LOAN PORTFOLIO COMPOSITION		
Loan Category	\$ (000)	%
Agricultural Loans	1,130	41.36
Commercial Loans	786	28.77
Consumer Loans	334	12.23
Agricultural Real Estate Loans	438	16.03
Residential Real Estate Loans	32	1.17
Other	12	0.44
<b>Total</b>	<b>2,732</b>	<b>100.00</b>

Bank lobby 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 "Needs to Improve" at the last CRA examination on January 5, 2000. 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 LAMB COUNTY

FNB has designated Lamb County as its assessment area. The county consists of contiguous block numbering areas (BNAs). Amherst is centrally located in Lamb County. Principal cities located within the assessment area include Littlefield, Sudan, Olton and Earth. Smaller communities also located within the assessment area include Fieldton, Springlake, and Spade. Specific demographic data and economic data for this area are listed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA	
<i>Population</i>	
Number of Families	4,129
Number of Households	5,474
<i>Geographies</i>	
Number of Census Tracts/BNA	6
% Low-Income Census Tracts/BNA	0.00
% Moderate-Income Census Tracts/BNA	16.67
% Middle-Income Census Tracts/BNA	66.67
% Upper-Income Census Tracts/BNA	16.67
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	23,270
2001 HUD-Adjusted MFI	35,800
2002 HUD-Adjusted MFI	36,100
<i>Economic Indicators</i>	
Unemployment Rate	2.69
2001 Median Housing Value	28,223
% of Households Below Poverty Level	23.57

This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

Based on 1990 Census data, the assessment area has a total population of 15,072. There are 6,531 housing units in the assessment area, of which 62 percent are owner-occupied, 22 percent are renter-occupied and 16 percent vacant. Approximately 24 percent of the families in the assessment area are low-income. Moderate-income families approximate 20 percent of the population, while middle- and upper-income families comprise the remaining 66 percent. The local economy is based on agriculture. Several dairies have located to Lamb County. Depressed crop prices and drought conditions have had a negative impact on the agricultural economy. The largest non-agricultural employers within the assessment area include American Cotton Growers (local denim manufacturing plant located in Littlefield), Lowe's Pay-n-Save grocery store, local school districts, and financial institutions.

Competition is strong in the assessment area with seven financial institutions and one credit union. There are a total of 14 banking offices in the assessment area.

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 was a member of the Amherst Chamber of Commerce. In addition, a community contact performed by other examiners in Lamb County during the prior month was reviewed. These contacts stated that economic conditions are

depressed, as the community is reliant upon agriculture. One contact further stated that FNB is active in the community and responsive to the credit needs of individuals in Amherst.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's loan-to-deposit ratio is less than reasonable given the bank's resources and capabilities. The remaining lending performance areas are satisfactory.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is less reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 18 percent since the prior CRA examination in January 2000. The average loan-to-deposit ratio of similarly situated banks within or contingent to the assessment area for the same period was 56 percent. The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below.

LOAN-TO-DEPOSIT RATIO COMPARISON		
Institution	Total Assets \$ (000's) (As of 03/31/02)	Average LTD Ratio*
The First State Bank, Abernathy	41,449	67.38%
Citizens State Bank, Anton	35,097	56.30%
First State Bank, Shallowater	30,489	52.71%
First Federal Savings and Loan Assoc. of Littlefield	38,319	49.36%
First National Bank of Littlefield	\$13,283	47.12%
<b>First National Bank of Amherst</b>	<b>20,559</b>	<b>18.24%</b>

\* - The average LTD ratio for the six banks is for the period from December 1999 through March 2002.

In response to the December 9, 1997 Performance Evaluation, the Board approved a five-year plan detailing the efforts the bank would take to increase lending activity. The plan included purchasing loans from correspondent banks and utilizing government guaranteed programs. Since the prior Performance Evaluation on January 5, 2000, the bank has purchased four loans from its correspondent bank. Also, four SBA guaranty loans have been purchased from an investment advisor. As of March 31, 2002, these loans account for approximately 22 percent of net loans. The bank has also made available in its lobby residential real estate applications from its correspondent bank. The correspondent bank has not made any residential loans from this effort. Although management has taken actions to improve the bank's lending efforts, little progress has been achieved in improving the bank's loan-to-deposit ratio. Comparable financial institutions in the area face similar issues as the bank, but have been able to maintain loan-to-deposit ratios that are significantly higher than FNB. According to the March 31, 2002 Uniform Bank Performance Report, FNB is in the one percentile of its national peer group for the percentage of loans to assets.

### Lending in Assessment Area

A substantial majority of the bank's loans were made within its assessment area. In order to assess performance for these criteria, we reviewed a sample of 20 agricultural and 20 consumer loans originated from January 2000 through June 2002. Our analysis determined that 92.5 percent of the number of loans and 98.4 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.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agricultural	20	100.0%	880	100.0%	0	0.0%	0	0.0%
Consumer	17	85.0%	106	86.9%	3	15.0%	16	13.1%
Total Reviewed	37	92.5%	986	98.4%	3	7.5%	16	1.6%

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

FNB's loan portfolio reflects an excellent penetration of loans to farms of different sizes and to individuals of different income (including low- and moderate-income) levels. Our analysis included 20 agricultural and 20 consumer loans originated from January 2000 through June 2002

FNB's primary loan product is agricultural loans. As seen in the following chart, 100 percent of the number and dollar volume of agriculture loans sampled were to small farms with gross annual revenues less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms	91.1%	8.9%
% of Bank Loans in AA #	100.0%	0.0%
% of Bank Loans in AA \$	100.0%	0.0%

Our analysis reflects a good penetration of consumer loans to low- and moderate-income households. Based on 1990 Census information, 42.8 percent of households in the assessment area are low- and moderate-income. Our review determined that 55.0 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. In addition, FNB does not have a minimum loan amount and has made consumer loans for as little as \$100. The following chart reflects the results of our selected sample of consumer loans originated in FNB's assessment area.

CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	25.3%		17.5%		18.9%		38.2%	
LOANS	% of Number	% of Amount						
Total	20.0%	7.6%	35.0%	23.2%	30.0%	50.8%	15.0%	18.4%

### Geographic Distribution of Loans

The geographic distribution of loans within the BNAs is reasonable given the bank's business strategy and location. Our analysis included 20 agricultural and 20 consumer loans originated from January 2000 through June 2002.

The moderate-income BNA was not reflected in the small-farm lending sample. There is little chance that agricultural operations would occur in the moderate-income area because it is located within the city limits of Littlefield. The following chart reflects the results of our selected sample of small-farm loans originated in FNB's assessment area.

FARM LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Farms	0.0%		1.5%		87.0%		11.5%	
LOANS	% of Number	% of Amount						
Total	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%

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. Demographic information indicates that the moderate-income area is located in Littlefield, which is located in Lamb County approximately six miles south/southeast of Amherst. There are three financial institutions (with three branches), two branches of non-local financial institutions, and one credit union in Littlefield that provide financial needs to that area. As a result, FNB has a limited opportunity to provide financial needs to the Littlefield area. Also, FNB's primary business strategy is agricultural lending. The following chart reflects the results of our selected sample of consumer loans originated in FNB's assessment area.

CONSUMER LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.0%		22.7%		54.4%		22.9%	
LOANS	% of Number	% of Amount						
Total	0.0%	0.0%	0.0%	0.0%	85.0%	92.12%	15.0%	7.9%

**Responses to Complaints**

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

**Fair Lending Review**

An analysis of 2000 and 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 2000.