



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 31, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Port Lavaca
Charter Number 14821**

**1101 Highway 35 (By-Pass) South
Port Lavaca, TX 77979**

**Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Blvd., Suite 402
San Antonio, Texas 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.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **First National Bank in Port Lavaca, Port Lavaca, Texas** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 31, 2003**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

The lending performance of First National Bank in Port Lavaca (FNB) reflects a satisfactory response to community credit needs including low- and moderate-income individuals and small businesses and small farms.

Factors in our assessment include the following:

- The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance.
- A substantial majority of the bank's loans are extended to borrowers residing within its assessment area.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and to businesses and farms of different sizes.
- The bank has not received any public complaints concerning its CRA performance.

DESCRIPTION OF INSTITUTION

FNB is an independently owned, retail oriented community bank. As of December 31, 2002, FNB had total net loans of \$29 million and total assets of \$125 million for a loan-to-asset ratio of 23.2 percent. All banking services are performed through their main office in Port Lavaca, Calhoun County, Texas. FNB offers various loan, deposit, and trust services to the community. The bank does not have any branch offices, but operates three 24-hour automatic teller machines (ATMs) in the AA. Competition is very strong with eight other financial institutions located in the bank's assessment area. One competitor (Seaport Bank) is an affiliate of FNB and located in Seadrift, Texas. Other competition is from five branches of other commercial banks, including branches of a regional and multi-national bank, and two credit unions. The bank offers a wide

range of credit products. The following table reflects the bank's loan distribution as of December 31, 2002.

Loan Category	\$ (000)	%
Residential Real Estate Loans	12,372	41.6
Consumer Loans	6,855	23.1
Commercial Real Estate Loans	6,502	21.9
Commercial Loans	2,991	10.1
Other various loans	529	1.8
Agricultural loans	461	1.5
Total	29,710	100.0

There are no legal, financial or other factors impeding FNB's ability to help meet the credit needs in its AA. The prior CRA examination was conducted as of June 29, 1998, and reflected a satisfactory rating.

DESCRIPTION OF CALHOUN COUNTY

The bank has designated its assessment area (AA) as the entire county of Calhoun. The AA meets the requirements of the regulation. Calhoun County is located on the Gulf Coast approximately 90 miles northeast of Corpus Christi, Texas. The 1990 census reflects that the county has 5,206 families and a total population of 19,053. The city of Port Lavaca is the county seat as well as the largest city in the AA with a population of nearly 11,000. Calhoun County is considered a nonmetropolitan area and consists of six Block Numbering Areas (BNA's). Three (50%) of the BNA's are considered middle-income, and two (33%) are upper income. Income data is not available for the remaining BNA due to the absence of permanent households. There are no low- and moderate-income BNA's in Calhoun County. The distribution of families in the county by income level is as follows:

- low-income - 19.8%;
- moderate-income - 14.7%;
- middle-income – 17.2%; and
- upper-income – 48.3%.

The statewide non-metropolitan 2002 median family income (MFI) is \$36,100, as determined by the U.S. Department of Housing and Urban Development (HUD).

Economic conditions of the AA are generally stable but recently weakened. The petrochemical industry is the largest employer in the county; however, a plant recently closed which resulted in a significant number of job losses. Intoplast Group, Formosa Plastics, Dupont, Union Carbide, and Alcoa continue to be largest petrochemical industry employers. Manufacturing, agribusiness, seafood production, construction, transportation, and the visitor/leisure industry also contribute to the economy and employment base. The agriculture sector suffered a setback in 2002 when 58 percent of the cotton crop failed due to dry weather conditions. The current unemployment rate is 3.6 percent.

We performed one community contact in conjunction with this examination. The contact

represented Calhoun County and indicated they were not aware of any significant unmet credit needs. The contact characterized the local economy as poor; sighting a plant closure, a state jail closure, drought conditions, and a poor shrimping industry as contributing factors. The contact related that all of the local financial institutions were very active within the community. The following table details demographic and economic characteristics of Calhoun County.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	5,208
Number of Households	6,745
<i>Geographies</i>	
Number of Census Tracts/BNA	6
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	50.00%
% Upper-Income Census Tracts/BNA	33.33%
<i>Median Family Income (MFI)</i>	
2002 MFI for AA	\$36,100
2001 MFI for AA	\$35,800
2000 MFI for AA	\$34,700
1999 MFI for AA	\$33,900
<i>Economic Indicators</i>	
Unemployment Rate	3.60%
1990 Median Housing Value	\$44,877
% of Households Below Poverty Level	17.85%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance with a quarterly average ratio (previous 19 quarters) of 25.77 percent. The bank's quarterly LTD ratio has ranged from 21.3 percent to 29.5 percent. FNB's LTD ratio compares reasonably with other similarly situated area banks given the overall low loan demand, weakened economy, and strong competition in the local area. The Seaport Bank is the only other independent bank located in the AA. Seaport Bank's LTD ratio increased since the prior evaluation due to asset purchases from other institutions and a loan participation from FNB. The other three banks listed in the following table are located in adjacent counties; however, the competition in these other areas is not as intense as it is in FNB's AA. This table depicts the LTD ratios of FNB and other similarly situated banks.

Loan-to-Deposit Ratios		
Institution	Assets (as of 12/31/02)	Average LTD Ratio
Seaport Bank	25,669	45.17%
<i>First National Bank</i>	<i>125,458</i>	<i>25.77%</i>
City State Bank- <i>Palacios*</i>	46,632	73.86%
First National Bank- <i>Refugio*</i>	57,388	25.12%
Citizens State Bank- <i>Ganado*</i>	41,782	25.61%

* These banks are not located in the bank's AA, but are located in adjacent counties.

Lending in the Assessment Area

A majority of the bank's lending activity is within its AA and meets the standards for satisfactory performance. As illustrated in the following table, 78 percent of the total number and 56 percent of the total dollar amount of sample loans were made in the AA. Our sample consisted of twenty residential loans, twenty consumer loans, and twenty commercial/agricultural loans. These loans were selected, as they were the most predominant type of loans made by FNB. A majority of the loans originated outside the AA were to individuals located in adjacent communities.

Lending in Assessment Area - TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	17	85%	1,455	85%	3	15%	263	15%
Consumer	13	65%	88	66%	7	35%	45	34%
Business/Ag	17	85%	2,833	48%	3	15%	3,092	52%
Total	47	78%	4,376	56%	13	22%	3,400	44%

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

FNB's lending activity meets the standards for satisfactory performance. Our loan sample reflected that the distribution of loans indicates a reasonable penetration among individuals of different income levels and to businesses and farms of different sizes. Our review of loans included a random sample of twenty residential, twenty consumer and twenty commercial/agricultural loans originated in the AA (includes those "In Assessment Area" in the previous section).

Our review of the residential loan sample reflected that the bank made several residential loans to low- and moderate-income families, but at a proportionally lower level compared to the percentage of low-income and moderate-income families in the AA. It was noted that the Calhoun County median housing value of \$44,877 might limit the availability of affordable housing for low- and moderate-income families. In addition, nearly 18 percent of households in the AA are below the poverty level, further limiting the qualifying applicant population. The following table depicts the distribution of our sample of residential loan originations in the AA.

RESIDENTIAL REAL ESTATE LOAN SAMPLE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.8%		14.7%		17.2%		48.3%	
	% of Number	% of Amount						
Sample loans made since 6/30/1998	10.0%	4.6%	10.0%	6.7%	10.0%	6.9%	70.0%	81.8%

The sample reflected that the bank originated consumer loans (by the percentage of the number) in excess of the percentage of low- and moderate-income households in the AA. The following table shows a comparison of our loan sample to demographic data of the AA.

CONSUMER LOAN SAMPLE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.4%		14.5%		16.6%		47.5%	
	% of Number	% of Amount						
Sample loans made since 6/30/1998	25.0%	6.7%	20.0%	18.4%	35.0%	39.4%	20.0%	35.5%

Eighty-five percent of the number of loans in our commercial loan sample were loans made to small businesses and farms with annual revenues less than or equal to \$1 million. The review of commercial/farm loans was based on an analysis of a random sample of twenty loans originated in the AA since the prior CRA examination. The following table depicts the distribution of loans to businesses and farms.

BORROWER DISTRIBUTION OF SAMPLE LOANS TO BUSINESSES AND FARMS		
Business & Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses and Farms *	90.7%	4.9%
% of Bank Loans in AA #	85.0%	15.0%
% of Bank Loans in AA \$	46.1%	53.9%

* 4.4% of businesses and farms did not report revenue

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not performed, as it would not have been meaningful. There are no low- or moderate-income BNA's within FNB's AA. Our sample indicated a reasonable distribution of loans throughout the AA.

Responses to Complaints

FNB has not received any complaint or public comments regarding their CRA performance since the previous examination.

Fair Lending Review

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