



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 15, 2011

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
10001 Reunion Place, Suite 250
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 the 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 reasonable and averaged 64% during the evaluation period.
- A substantial majority of FNBB’s loans are within its AA.
- FNBB’s loan portfolio reflects an overall reasonable distribution among individuals of various income levels and commercial businesses of different sizes within the AA based on number of loans extended.
- FNBB’s consumer and commercial lending to individuals and businesses in low- to moderate-income (LMI) census tracts (CTs) in Runnels County did not meet area demographics. Bank performance in the Tom Green County AA meet area demographics for loans to business. However, consumer lending activity in LMI areas is below area demographics.

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, a drive-through facility, and two automatic teller machines (ATMs). The bank also operates a branch in the city of San Angelo. The branch is a full-service facility with a drive-through and an ATM. One ATM is located in Winters, Texas, 15 miles northeast of Ballinger. None of FNBB’s ATMs accept deposits.

As of June 30, 2011, FNBB had total assets of \$122 million with 52% centered in the loan portfolio. The following chart details a breakdown of FNBB’s loan portfolio as of June 30, 2011.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Residential (1-4)	15,917	25.1
RE Non-Farm Non-Residential	11,957	18.8
RE Farmland	6,501	10.2
Agricultural Production	5631	8.9
Consumer	5086	8.0
Other	1355	2.1
Total	63,493	100

Source June 30, 2011 Call Report

The bank is owned by the multi-bank holding company Texas Country Bancshares, Inc. (TCB). The bank is affiliated through common ownership with: Brady National Bank, Brady, 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 normal 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 dated June 25, 2007. No legal impediments or other factors hinder FNBB’s ability to provide credit in its AA.

DESCRIPTION OF ASSESSMENT AREAS

The bank has selected the San Angelo metropolitan statistical area (MSA) and Runnels County as its AAs. During the previous CRA examination, the AA was comprised of Tom Green County and Runnels County. According to the 2010 Census, Tom Green County is part of the San Angelo MSA. The bank’s main office is located in Runnels County. The County is made up of four 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 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 Miles, Winters, Rowena, Lowake, Norton, and Wingate. Specific demographic data for this area is listed on the following table.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF RUNNELS COUNTY	
Population	
Number of Families	3,203
Number of Households	4,442
Geographies	
Number of Census Tracts (CTs)	4
% Low-Income CTs	0%
% Moderate-Income CTs	25%
% Middle-Income CTs	75%
% Upper-Income CTs	0%
Median Family Income (MFI)	
2010 MFI for AA	\$32,906
2010 HUD-Adjusted MFI	\$46,500
2009 HUD-Adjusted MFI	\$45,600
2008 HUD-Adjusted MFI	\$43,600
Economic Indicators	
Unemployment Rate	3.15%
2010 Median Housing Value	\$43,166
% of Households Below Poverty Level	19.34%

Based on the 2010 Census data, Runnels County has a population of approximately 11,495. 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 an Officer of the Ballinger Chamber of Commerce. 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 in the table 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)	
2010 MFI for AA	\$41,540
2010 HUD-Adjusted MFI	\$51,800
2009 HUD-Adjusted MFI	\$52,400
2008 HUD-Adjusted MFI	\$49,100
Economic Indicators	
Unemployment Rate	4.5%
2010 Median Housing Value	\$64,697
% of Households Below Poverty Level	14.91%

Based on the 2010 Census data, Tom Green County has a population of approximately 104,010. 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, and local government. The largest employers are Goodfellow AFB, Shannon Health System, and San Angelo ISD. Approximately 15% of AA households are below the poverty level.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBB's LTD ratio of 57% as of March 30, 2011, is considered reasonable, given its asset size, financial condition, and lending opportunities in the AA. The average LTD ratio over the past 16 quarters was 63%, which has remained relatively stable from the prior CRA examination's average ratio of 64%. 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% to 77%. The asset size and LTD ratio for FNBB and its competing banks during this period are listed below.

INSTITUTION	ASSETS AS OF 3/31/2011*	AVERAGE LTD RATIO %**
Security State Bank, Winters	34,893	46.36
Ballinger National Bank	39,121	62.85
First State Bank, Concho	70,847	62.06
Citizens State Bank, Miles	81,344	74.80
The First National Bank of Mertzon	209,643	25.41
The First National Bank of Sonora	241,772	77.14
First National Bank Ballinger	120,822	62.85

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

**The average LTD ratio is based on the period between March 2007 and March 2011.

Lending in Assessment Area

A substantial majority of FNBB's loans are made within its AA. In order to assess performance for these criteria, we reviewed a sample of 43 commercial and 48 consumer loans originated during 2008 through 2010.

Our analysis determined that 95% of the number and 92% of the dollar amount of commercial loans were made within the AA. We further determined that 90% of the number and 88% of the dollar amount of consumer loans were made within the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	In Assessment Area				Out of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	41	95	1,782	92	2	5	150	8
Consumer	43	90	864	88	5	10	115	12
Total Reviewed	84	92	2646	91	7	8	265	9

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

FNBB's loan portfolio reflects reasonable penetration among individuals of various income levels and commercial businesses of different sizes within the AA. Our analysis included a sample of 43 commercial and 48 consumer loans originated during the period between 2008 and 2010. The loan sample was broken down between the two AAs.

Runnels County Assessment Area

The borrower distribution of consumer loans to LMI families in this AA reflect performance similar to the area demographic based on number of loans. Based on the 2010 Census information for Runnels County, 29% and 15% of AA households are LMI households, respectively. Based on dollar volume, only 9% and 6% of consumer loans were made to LMI families, respectively. However, based on number of loans, 36% were to low-income families and 18% of the number of loans originated were to moderate-income families. 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>	29.27%		14.93%		20.80%		35.01%	
	<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>	18.18	8.89	18.18	6.03	22.73	4.79	40.91	80.28

Small businesses are defined as having annual gross revenues of \$1 million or less. The bank’s record of lending to small businesses exceeds area demographics based on number of loans. However, based on dollar volume of lending, a shortfall is evident when compared to area demographics. 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 (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.05	2.14	20.81	100%
% of Bank Loans in AA by #	91.30	8.70	0	100%
% of Bank Loans in AA by \$	57.51	42.49	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Tom Green County Assessment Area

The borrower distribution of consumer loans to LMI families in this AA reflects performance similar to the area demographics. Lending to low-income families is reasonable as approximately 23% of AA households are low-income and 19% (number of loans) of loans sampled were made to low-income households. Lending to moderate-income families exceeds area demographics and is excellent with regard to both dollar and volume. The following charts reflect the results of our selected sample of consumer loans.

CONSUMER								
<i>BORROWER INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	23.18%		16.53%		19.39%		40.90%	
	<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>	19.23	8.08	23.08	27.36	26.92	44.00	30.77	20.56

FNBB’s level of lending to small businesses is excellent. The percentage of the number and of the amount of loans originated in the AA exceeds 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 (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.85%	3.47%	19.68%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

FNBB’s consumer and commercial lending to individuals and businesses in LMI CTs in Runnels County did not meet area demographics. Performance in the Tom Green County AA meets area demographics for loans to business. However, consumer lending activity in LMI areas is below area demographics.

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, where an ATM is located. Based on 2010 Census data, 0% of AA households are located in low-income households and 0% of consumer and commercial loans were made to individuals and businesses, respectively, located in low-income CTs. However, 23.5% of AA households are located in moderate-income CTs and only 4.55% of consumer loans and 0% 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 following table reflects the results of our geographic distribution testing of Runnels County AA.

Geographic Distribution of Consumer Loans in Runnels County								
<i>Census Tract Income Level</i>	<i>Low 0</i>		<i>Moderate 23.53</i>		<i>Middle 76.47</i>		<i>Upper 0.00</i>	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
	0	0	4.55	.57	90.91	77.11	4.55	22.33

Geographic Distribution of Loans to Businesses in Runnels County								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
Loan Type	% of AA Businesses / Farms	% of Number of Loans	% of AA Businesses / Farms	% of Number of Loans	% of AA Businesses / Farms	% of Number of Loans	% of AA Businesses / Farms	% of Number of Loans
	0	0	0	0	95.65	92.22	4.35	7.78

Tom Green County Assessment Area

FNBB's consumer and commercial lending to individuals and businesses in moderate-income CTs in Tom Green County meets the AA demographics. FNBB's consumer lending to individuals in LMI CTs in Tom Green County shows poor dispersion. According to 2010 Census information, 1% of AA households are located in low-income CTs and 18% of AA households are located in moderate-income CTs. However, based on our sample, the bank made no loans to households located in low-income CTs and 3.85% of consumer loans to households located in moderate-income CTs. The following table reflects the results of our geographic distribution test of consumer loans for Tom Green County.

Geographic Distribution of Consumer Loans in Tom Green County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
	0	0	3.85	7.09	42.30	28.20	53.85	64.71

FNBB's level of commercial lending to businesses in LMI CTs shows satisfactory geographic dispersion. Our sample indicated 20% of small business loans were to borrowers located in moderate-income tracts. This level of lending exceeds area demographics, which shows 14.5% of AA businesses are located in moderate-income CTs. In terms of dollar amount, 19.2% of AA loans were made to moderate income CTs. This indicates improvement from the last CRA examination, where 0% of the dollar amount of loans was made to LMI CTs.

Geographic Distribution of Loans to Businesses in Tom Green County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses / Farms	% of Number of Loans	% of AA Businesses / Farms	% of Number of Loans	% of AA Businesses / Farms	% of Number of Loans	% of AA Businesses / Farms	% of Number of Loans
	0	0	20	19.20	25	29.76	55	51.05

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.