



SMALL BANK

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

PUBLIC DISCLOSURE

December 11, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Whitney
Charter Number 13649**

**307 N. Brazos Street
Whitney, TX 76692**

**Comptroller of the Currency
Fort Worth Field Office
9003 Airport Freeway Suite 275
North Richland Hills, TX 76180-9127**

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.

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 the First National Bank in Whitney, Whitney, Texas as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 11, 2006. 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.

First National Bank in Whitney's lending performance reflects satisfactory responsiveness to its community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio of 23% is reasonable given the bank's size, financial condition, local competition, and assessment area credit needs.
- A majority of the bank's loan activity is within the bank's assessment area.
- The distribution of loans demonstrates reasonable penetration among individuals of different income levels and businesses of different sizes.
- There have been no CRA related complaints filed against the bank.

DESCRIPTION OF INSTITUTION

The First National Bank in Whitney (FNB) is a community bank located in Whitney, Texas, which is approximately 60 miles south of Fort Worth, Texas. The bank operates from the main facility in downtown Whitney and a branch facility in nearby Laguna Park. The bank also provides an Automated Teller Machine (ATM) located at the main facility. FNB is a subsidiary of Baylor Bancshares, Inc. (Baylor), which is a multi-bank holding company. Other banks in the holding company include Memphis State Bank, First National Bank of Seymour, and Citizens State Bank of Princeton. All of these banks are small community banks located in the state of Texas. The holding company also owns 100% of Baylor Mortgage Company, Inc., an operating subsidiary. The corporate structure of neither the bank nor the holding company has changed since the prior CRA examination.

FNB is a full-service community bank offering a wide variety of loan and deposit products. As

of September 30, 2006, FNB has total assets of \$51 million, loans of \$10 million, and deposits of \$43 million. The following table presents the bank's loan information as of September 30, 2006.

Loan Category	\$ (000)	%
Commercial	\$2,962	30.0%
Agricultural Production/Other Agricultural	\$961	9.7%
Consumer Loans	\$1,871	19.0%
Commercial Real Estate	\$3,682	37.3%
Other Loans	\$147	1.5%
Farmland Real Estate	\$16	0.2%
Residential Real Estate	\$226	2.3%
Total	\$9,865	100.0%

The bank has a conservative credit underwriting policy. A large portion of the bank's customer base is comprised of elderly members of the community who have their life savings on deposit with the bank. They view the bank as a safe place to have these deposits because of the well-known conservative lending standards and perceived low level of risk in the bank.

Primary competition comes from five other national and state-chartered community banks located in and near the bank's assessment area. There are also several branch facilities of regional and national-sized banks located near the assessment area. Secondary competition is offered by several non-bank institutions in the area. Remote competition is posed by financial institutions in nearby Waco, Texas.

The most recent CRA examination was performed as of July 15, 2002. The bank received a satisfactory rating at that examination. There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB has defined its assessment area (AA) as nine whole and contiguous block numbering areas (BNAs) straddling the line between Bosque and Hill counties. The assessment area is legal and meets the requirements of the regulation. Approximately 24,512 persons live within the assessment area. The assessment area is not in a Metropolitan Statistical Area (MSA). Eight BNAs are designated as middle-income geographies, and one BNA is designated as upper-income. There are no low- or moderate-income BNAs in the assessment area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA	
Population	
Number of Families	7,232
Number of Households	9,856
Geographies	
Number of Block Numbering Areas (BNAs)	9
% Low-Income BNAs	0.00%
% Moderate-Income BNAs	0.00%
% Middle-Income BNAs	88.89%
% Upper-Income BNAs	11.11%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$39,840
2006 HUD-Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	2.04%
2002 Median Housing Value	\$59,586
% of Households Below Poverty Level	13.00%

The primary credit needs of the community are related to the small local businesses established throughout the city. The economy is largely dependent on the tourism industry from the recreational activities associated with nearby Lake Whitney. No other significant industry exists. The general state of the local economy is stable. Unemployment levels in the area have remained low. Major employers in the county are Whitney Independent School District, the local hospital, and city and county governments.

FNB maintains a high reputation as the oldest established bank in town. The bank reflects a positive image, is involved in the community, and supports local business initiatives. There are no identified unmet credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our conclusions are based on the bank's lending activity since the last CRA examination, dated July 15, 2002. All lending activity is performed at the main facility in Whitney. The bank continues to make consumer, real estate, and small business loans throughout the assessment area to individuals of various income levels. Our assessment is based on sampling the consumer and business portfolios.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. The average of such ratios for each quarter-end since the last CRA examination is used to determine performance in this area. The average LTD ratio for FNB since the last CRA examination is 23%. Area lenders' average LTD ratios range from 22% to 66% over the same time period. The bank's heavy volume of low dollar loans, conservative lending philosophy, and significant local competition contribute to the low LTD ratio.

Additionally, the bank has no minimum loan amount and has extended a significant volume of low dollar and personal loans. Generally, these loans are typical of individuals with lower income levels who cannot qualify for other credit facilities such as credit cards. The low dollar lending activity and concentration of lending within the assessment area confirms that the bank is satisfactorily serving the community's credit needs.

Lending in Assessment Area

The bank's lending within the assessment area exceeds the standards for satisfactory performance.

This criterion quantifies what proportion of the bank's lending activity is within its assessment area. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own assessment area, would be considered less than satisfactory. However, FNB's lending efforts are concentrated within its assessment area.

At this time, FNB does not track loans by location. To assess the bank's performance in this area we were required to sample a portion of the loan portfolio. We used the sample noted above to assess the bank's performance for this criterion. Based on our sample results, a majority of loans are within the bank's assessment area. The following table reflects the results of our assessment of the bank's efforts to lend in its assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer Loans	19	95%	125	95.4%	1	5%	6	4.6%
Business Loans	18	90%	326	81.7%	2	10%	73	18.3%
Total Reviewed	37	92.5%	451	85.1%	3	7.5%	79	14.9%

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

The bank's loan distribution, to the different family and household income levels as well as businesses of different sizes, meets the standards for satisfactory performance.

The bank obtains and analyzes applicant income information during the loan decision process. However, this information is not monitored or used to assess the efforts to meet the standards for this criterion. To assess the bank's efforts, we used the sample of loans noted above. Our analysis, noted in the tables below, indicates the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Additionally, the bank has no minimum loan amount in policy. A review of small loans reflected the bank has 149 loans with originating balances of \$1,000 or less, currently on the books. This indicates the bank willingly extends credit to meet the needs of the consumer. Overall, we concluded that the bank's performance is generally proportionate to the income levels of the households within the assessment area, and the credit needs of low- and moderate-income individuals are being met. Also, bank meets the needs of the small businesses.

Consumer Lending

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21%		15%		18%		46%	
	% of Number	% of Amount						
	25%	19%	20%	35%	25%	20%	15%	22%

Financial information was not available on 15% of the number and 4% of the dollar of our sample.

Business Lending

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *Forty percent of assessment area businesses did not report revenue figures	58%	2%
% of Bank Loans in AA #	80%	5%
% of Bank Loans in AA \$	49%	37%

Financial information was not available on 15% of the number and 14% of the dollar of our sample.

Geographic Distribution of Loans

A geographic distribution analysis of loans was not performed. There are no low- or moderate-income BNAs within the bank's assessment area.

Responses to Complaints

FNB has not received any complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

An analysis of consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on our analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.