



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 31, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Texas
Charter #5750**

**507 North Gray Street
Killeen, Texas 76541-4871**

**Office of the Comptroller of the Currency
Southwestern District, Austin Field Office
8310 Capital of Texas Highway North, Suite 250
Austin, Texas 78731-1080**

NOTE: 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.

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 the 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 Texas (FNBT)** as prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 31, 2000. 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 assessed a rating of **“Outstanding.”**

FNBT's lending performance reflects an appropriate level of responsiveness to community credit needs. The following highlights the bank's performance:

- C FNBT's loan-to-deposit (LTD) ratio is generally below most other area banks' LTD ratio. However, adjusting the bank's LTD ratio for mortgage loans sold in the secondary market translates into an average quarterly LTD ratio that far exceeds previously reported figures. FNBT's adjusted LTD ratio averaged 90.7% from June 1997 to September 1999. This level of lending activity exceeds the standard for satisfactory performance.
- C A substantial majority of the number and dollar volume of loans, originated since the bank's last CRA examination, is in the bank's assessment area.
- C The distribution of borrowers reflects a level of lending to low- and moderate-income (LMI) families that exceeds the standard for satisfactory performance. The distribution also reflects a satisfactory level of lending to small businesses within the bank's assessment area.
- C The geographic distribution of loans reflects a reasonable dispersion of credit throughout FNBT's assessment areas.
- C FNBT received an “Outstanding” rating at its June 27, 1997 CRA examination and has not had any complaints concerning the bank's CRA performance since that time.

DESCRIPTION OF INSTITUTION

FNBT is a \$273 million bank headquartered in Killeen, Texas, approximately 50 miles north of Austin, Texas. FNBT is the lead bank of a two-bank holding company, First Community Bancshares, Inc. (FCBI). FCBI owns 100% of FNBT and Fort Hood National Bank (FHNB), FNBT's sister bank located on the Fort Hood Army Base. The bank's market niche is consumer and residential mortgage lending through the utilization of First Community Mortgage (FCM), FNBT's mortgage department. FNBT also offers commercial loan products.

The bank's loan portfolio totals \$107 million or 39% of total assets. This figure is net of \$47 million in residential mortgage loans and \$17 million in other loan participations sold to FHNB during 1999. The following table reflects a breakdown of loan products by type.

Loan Portfolio Composition		
Loan Type	Amount (000's)	Percentage of Total Loans
Consumer Loans	\$ 38,499	35.9%
1 - 4 Family Residential Loans	\$ 30,997	28.9%
Construction and Land Development Loans	\$ 15,654	14.6%
Commercial Real Estate Loans	\$ 11,941	11.1%
Commercial and Industrial Loans	\$ 5,983	5.6%
Multifamily Residential Property Loans	\$ 3,342	3.1%
Agricultural Loans	\$ 815	0.8%
Total	\$ 107,211	100%

The bank divides its market area into two regions. The Central Texas Region serves the cities of Killeen, Copperas Cove, Harker Heights, Nolanville, Temple, and the Fort Hood Military Base. This region includes six stand-alone offices and seven supermarket branches. The East Texas Region serves Conroe, Huntsville, and north central Houston with one stand-alone branch in each area, and 31 supermarket branches located from the Dallas Metroplex area to Corpus Christi. Supermarket branches do not have lenders present, but offer immediate telephone connections to the voice response unit and the Loan-by-Phone program. Loans may be closed at these locations during non-traditional banking hours.

FNBT provides access to banking services through its website at www.1stnb.com. Services include deposit and loan information, current interest rates, and credit applications. There are also 128 Gold Key automated teller machines (ATMs) located throughout both regions. These ATMs are free to Gold Key

cardholders.

FNBT faces strong competition from area banks, savings and loans, investment brokerage firms, credit unions, pawn shops, finance companies, and quasi-governmental agencies such as the Army and Air Force Exchange Service. Based upon its financial condition, the local economies, product offerings, competition and prior performance, FNBT has the ability to meet the various credit needs in its communities. There are no legal factors impeding the bank's ability to help meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

With the recent expansion in the Central and East Texas regions through the opening of supermarket branches, FNBT's assessment area is continually evolving. The bank currently has a presence in four Metropolitan Statistical Areas (MSAs) and several non-MSA areas throughout central and eastern Texas.

The table below details the areas where FNBT is located. The table also identifies the areas where at least one stand-alone branch exists.

Assessment Area Distribution by Tract Characteristic										
1990 Census Data	Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Total # of Tracts	
	#	%	#	%	#	%	#	%	#	%
Conroe *	1	2%	11	24%	19	41%	15	33%	46	100%
Dallas	20	27%	22	30%	25	34%	7	9%	74	100%
Galveston	7	32%	8	36%	5	23%	2	9%	22	100%
Hillsboro	0	0%	2	40%	2	40%	1	20%	5	100%
Houston *	1	3%	8	21%	17	45%	12	31%	38	100%
Huntsville	0	0%	2	50%	1	25%	1	25%	4	100%
Killeen *	1	4%	6	22%	15	56%	5	18%	27	100%
Mesquite	0	0%	13	35%	20	54%	4	11%	37	100%
Palestine	0	0%	1	25%	2	50%	1	25%	4	100%
Temple *	0	0%	5	38%	3	24%	5	38%	13	100%
Total	30	11%	78	29%	109	40%	53	20%	270	100%

* Denotes an area with at least one stand-alone branch.

FNBT's assessment area meets the requirements of the CRA and does not arbitrarily exclude LMI BNAs or census tracts.

FNBT has stand-alone branches in two MSA's: Killeen-Temple MSA #3810, and Houston MSA #3360. For analysis purposes, an emphasis was placed on activity where stand-alone branches exist. Although providing needed deposit and transaction account services, branches located in supermarkets have generated a minimal amount of lending activity. This is attributable to the lack of lending personnel at these locations and the perceived lack of privacy afforded in the supermarket environment.

Killeen Assessment Area

This assessment area includes a portion of the Killeen-Temple MSA that encompasses the cities of Killeen, Temple, Nolanville, Harker Heights, Copperas Cove, and Fort Hood. Fort Hood Army Base is the largest active duty armored post in the United States Armed Forces. It is also the largest single location employer in Texas. The post has 41,000 assigned soldiers and 13,000 civilian personnel employed. The local economy is strong with major employers including federal and local governments and service industries.

Based on 1990 Census data, the assessment area has a population of 193 thousand spread over 40 census tracts: 1 low-income, 11 moderate-income, 18 middle-income, and 10 upper-income. Eighty-six percent of the population are wage/salary earners and 8% are self-employed. Twenty percent of the population is on either social security or public assistance, 16% are retired, and 14% are below the poverty level. Housing stock stands at 71,000 units with 40% being owner occupied, 49% tenant occupied, and 11% vacant. The average median year built for area housing is 1973.

Information from the Department of Housing and Urban Development (HUD) reports the updated 1999 median family income for this area at \$39,000. Based on this data, low-income families comprise 18% of the assessment area, moderate-income families comprise 22%, and middle- and upper-income families comprise 23% and 37%, respectively.

Conroe Assessment Area

This assessment area includes a portion of the Houston MSA which encompasses all of Montgomery county and parts of Walker County, Texas. Cities serviced in this area include Conroe and Huntsville. The local economy is strong with major employers including federal and local governments and service industries.

Based on 1990 Census data, the assessment area has a population of 229,000 spread over 46 census tracts, 1 low-income, 11 moderate-income, 19 middle-income, and 15 upper-income. Eighty percent of the population are wage/salary earners and 14% are self-employed. Twenty-seven percent of the population is on either social security or public assistance, 12% are retired, and 14% are below the poverty level. Housing stock stands at 91,000 units with 58% being owner occupied, 27% tenant occupied, and 15% vacant. The average median year built for area housing is 1977.

Information from HUD reports the updated 1999 median family income for this area at \$50,586.

Based on this data, low-income families comprise 21% of the assessment area, moderate-income families comprise 17%, and middle- and upper-income families comprise 21% and 41%, respectively.

Houston Assessment Area

This assessment area includes a portion of the Houston MSA which consists of the Fort Bend/Harris County line to the southwest, north and east to North Baridge Road, south along the Sam Houston Parkway to Westheimer, and east to Fondren. The local economy is strong with major employers including federal and local governments, Continental Airlines, Dow Chemical, and service industries.

Based on 1990 Census data, the assessment area has a population of 296,000 spread over 38 census tracts, 1 low-income, 8 moderate-income, 17 middle-income, and 12 upper-income. Ninety-one percent of the population are wage/salary earners and 5% are self-employed. Twelve percent of the population is on either social security or public assistance, 6% are retired, and 11% are below the poverty level. Housing stock stands at 143,000 units with 30% being owner occupied, 56% tenant occupied, and 14% vacant. The average median year built for area housing is 1978.

Information from HUD reports the updated 1999 median family income for this area at \$54,100. Based on this data, low-income families comprise 21% of the assessment area, moderate-income families comprise 18%, and middle- and upper-income families comprise 21% and 40%, respectively.

As part of this examination, contacts were made in the communities with entities knowledgeable of housing needs and other lending demands in the bank's assessment areas. They indicated that there is a strong demand for affordable housing and rental properties. Federal and State programs are available to assist eligible borrowers, but community support and financing is needed. Small business loans were identified as a need, but the strength of the local economy seems to be providing adequate capital sources. They also expressed a need for small dollar loans to compete with high fee loans provided by area finance companies. The contacts stated that area banks are very supportive by providing financial assistance and expertise in pursuing these programs. Local banks have provided loans, services, and donations to support local projects.

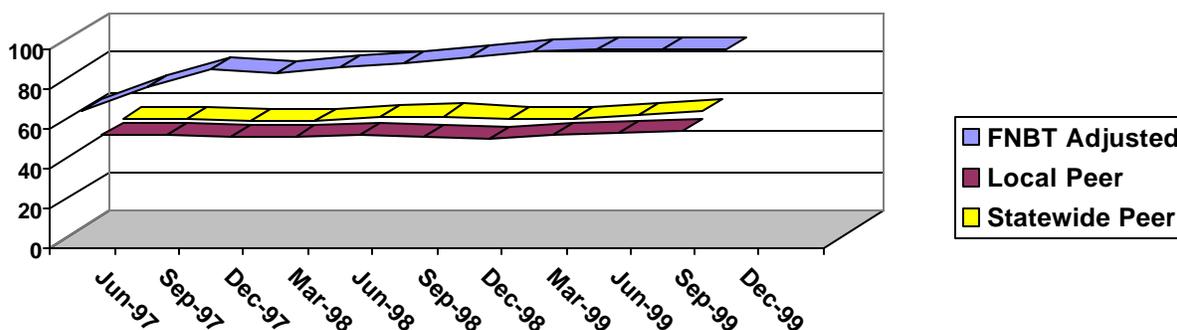
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management's lending products and practices have been successful in meeting the credit needs of the assessment areas, including LMI individuals, consistent with its resources and capabilities. A detailed comparison of performance in each assessment area is not included as the vast majority of lending activity has occurred in the Killeen area and expansion into other markets is relatively recent.

Loan-to-Deposit Ratio

FNBT's adjusted quarterly LTD averaged 90.7% from June 1997 through September 1999. This level of lending exceeds the standard for satisfactory performance. The sale of loans, mortgage loans in the secondary market and loan participations to FHNB, and the monthly deposit of the Fort Hood payroll negatively impact FNBT's reported LTD ratio. Data pertaining to these activities was collected for 1997, 1998, and 1999, and was incorporated into our analysis. FNBT's LTD ratio averaged 41.3% from June 1997 to September 1999; local competition averaged 50.6% and a statewide peer averaged 53.2% for the same period. The bank's LTD ratio, as of December 31, 1999, was 44.3%. A historical LTD ratio comparison of FNBT's adjusted LTD ratio to other local banks' and a statewide bank peer is reflected below. Based on discussion with bank personnel and mortgage loan activity in the area, the level of mortgage loan sales into the secondary market by other area lending institutions would not have a significant impact on their LTD ratios.

Historical LTD Ratio Comparison



Lending in the Assessment Area

A substantial majority of the number and dollar volume of loans originated through December 1999 is in the bank's assessment area. Based on the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR), 85% of the number and 83% of the dollar volume of residential loans originated during 1997, 1998, and 1999, were in the bank's assessment areas. The integrity of the HMDA-LAR data was tested during the examination and was found to be accurate. Internally generated consumer loan reports were also analyzed. These reports indicated that 56% of the number and 60% of the dollar volume of loans originated in 1999 were in the bank's assessment area. All 29 commercial loans originated between August 1999 and January 2000 reviewed were in the bank's assessment areas.

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

The loan distribution to individuals with different income levels within the assessment area exceeds the standard for satisfactory performance. Our review of consumer loans originated in 1999, a total of 3,691, reflects a level of lending to LMI families in excess of area demographics. Our review of all residential loans originated in the Killeen / Temple area and detailed on the 1997, 1998, and 1999 HMDA-LAR indicates that the level of lending to low-income families was below demographic characteristics of the assessment area. This is attributable to a strong demand for rental property by the transient population in the Killeen-Temple MSA and the lack of loan production being realized in the supermarket branches. The details of our review are reflected in the following chart.

Loan Sample Distribution by Income Group										
Killeen / Temple Assessment Area										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total # of Families	
Area Demographic Characteristics	18%		22%		23%		37%		100%	
# of Families	8,618		10,801		11,409		17,905		48,733	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	1,876	51%	1,188	32%	363	10%	264	7%	3,691	100%
Home Purchase	11	1%	272	24%	419	36%	453	39%	1,155	100%
Home Improvement	16	15%	23	21%	31	28%	40	36%	110	100%
Refinancing	1	3%	5	16%	4	12%	22	69%	32	100%

Included in these figures are \$4 million in first-time homebuyer, LMI area, and LMI family residential loans funded during 1997, 1998, and 1999 through participation in a federal bond program. FNBT also funded \$466 thousand in residential mortgage loans through a HUD-administered program targeting low- and very low-income homebuyers in Killeen, Texas.

Our review of all residential loans originated in the Houston/Conroe area and detailed on the 1997, 1998, and 1999 HMDA-LAR indicates that the level of lending to LMI families exceeds the demographic characteristics of the assessment area. The details of our review are reflected in the following chart.

Loan Sample Distribution by Income Group Houston/Conroe Assessment Area										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total # of Families	
Area Demographic Characteristics	21%		17%		21%		41%		100%	
# of Families	27,786		23,024		27,611		54,313		132,734	
Loan Type	#	%	#	%	#	%	#	%	#	%
Home Purchase	42	28%	44	30%	23	16%	39	26%	148	100%
Home Improvement	162	45%	86	24%	73	20%	38	11%	359	100%
Refinancing	5	18%	7	26%	4	15%	11	41%	27	100%

We also reviewed 29 commercial loans originated from August 1999 through January 2000 to determine the distribution among businesses of different sizes. Our analysis reflected a satisfactory dispersion with 62% of commercial loans being granted to entities having gross revenues of less than \$1 million. Details of our review are reflected in the following table.

Lending to Businesses of Different Sizes										
Gross Revenues \$	Less than 100,000		100,000- 250,000		250,000- 1,000,000		More than 1,000,000		Total	
Loan Type	#	%	#	%	#	%	#	%	#	%
Commercial	4	14%	3	10%	11	38%	11	38%	29	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of loans reflects a satisfactory dispersion of credit throughout the bank's assessment area. An analysis of residential loans originated during 1997, 1998, and 1999, and consumer loans originated during 1999, in areas where FNBT has stand-alone branches was completed during this review. The analysis was limited to these assessment areas due to the limited lending activity being experienced in supermarket branches previously discussed. As discussed previously, the lack of activity in LMI areas is also attributable to the transient nature of military personnel and their demand for rental housing. This type of housing is located in the lower-income areas of the community and does not support lending activity of the type reviewed. The distribution of loans is reflected in the following tables.

Lending in Areas of Different Income Levels Killeen / Temple Assessment Area										
	Low Income Areas		Moderate Income Areas		Middle Income Areas		Upper Income Areas		Total	
Percent of Total Demographic Areas in AA:	2%		28%		45%		25%		100%	
Count:	1		11		18		10		40	
Loan Types	#	%	#	%	#	%	#	%	#	%
Home Purchase	0	0%	34	3%	725	63%	397	34%	1,156	100%
Home Improvement	0	0%	8	7%	74	64%	34	29%	116	100%
Refinancing	0	0%	3	3%	69	60%	43	37%	115	100%

Lending in Areas of Different Income Levels Houston / Conroe Assessment Area										
	Low- Income Areas		Moderate- Income Areas		Middle- Income Areas		Upper- Income Areas		Total	
Percent of Total Demographic Areas in AA:	2%		23%		43%		32%		100%	
Count:	2		19		36		27		84	
Loan Types	#	%	#	%	#	%	#	%	#	%
Home Purchase	0	0%	73	48%	61	41%	17	11%	151	100%
Home Improvement	3	1%	192	53%	140	39%	24	7%	359	100%

Refinancing	0	0%	12	43%	13	46%	3	11%	28	100%
Lending in Areas of Different Income Levels Assessment Areas with Stand Alone Branches										
	Low- Income Areas		Moderate- Income Areas		Middle- Income Areas		Upper- Income Areas		Total	
Percent of Total Demographic Areas in AA:	2%		24%		44%		30%		100%	
Count:	3		30		54		37		124	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	52	1%	1,214	30%	2,016	50%	777	19%	4,059	100%

RESPONSE TO COMPLAINTS

The bank has not received any consumer complaints concerning its CRA performance since the June 27, 1997 examination.

OTHER PERTINENT INFORMATION

A Fair Lending examination was performed in conjunction with this evaluation and no evidence of disparate treatment or discriminatory practices was found.