



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

May 27, 2008

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

NewFirst National Bank  
Charter Number: 6112

202 East Jackson  
El Campo, TX 77437-0000

Office of the Comptroller of the Currency

HOUSTON  
1301 McKinney Street, Suite 1410  
Houston, TX 77010-3031

**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.

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

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

NewFirst National Bank (NewFirst) has a satisfactory record of meeting community credit needs based on the following:

- Lending to borrowers of different incomes and to businesses of different sizes reflects reasonable penetration.
- The geographic distribution of loans reflects reasonable dispersion.
- The bank's performance shows satisfactory responsiveness to the community development needs of the assessment area through community development lending, investments, and services.
- A majority of loans were originated inside the assessment area.

## **Scope of Examination**

This was the bank's first examination as an Intermediate Small Bank. At the prior examination dated March 31, 2003, the bank was evaluated as a small bank.

We completed a full-scope review of the bank's CRA activities. The Lending Test included a review of three primary loan products. We reviewed owner-occupied residential real estate loans reported on the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) for 2005, 2006, and 2007. Our review included all loans originated in the assessment area for these three years. This was a total of two hundred eighty nine (289) loans. For commercial loans, we reviewed a statistically valid sample of thirty (30) loans originated since the prior examination, and we reviewed a similarly selected sample of thirty (30) consumer loans. The Community Development Test included a review of community development loans, investments, and services since the prior examination.

## **Description of Institution**

NewFirst is owned by NewFirst Financial Group, Inc. It is a full service community bank headquartered in El Campo, Texas that opened in 1902. It has two related organizations. One related organization, NewFirst Insurors, provides full service commercial lines and is the third largest independent insurance agency in Texas. The other related organization, NewFirst Investment Services, offers advisory services covering financial planning. The bank was formerly the First National Bank of El Campo and changed its name to NewFirst National Bank on January 22, 2002. NewFirst operates only in Texas. The main bank is located in El Campo, Texas at 202 East

Jackson. In addition, the bank has seven other branches. NewFirst recently opened a branch in El Campo in June 2008. Branches are located in Wharton, Texas in Wharton County, one in Victoria, Texas in Victoria County, and three branches are in Fort Bend County in the cities of Sugar Land, Rosenberg, and Needville. The seventh branch is in northwest Harris County. ATM services are available at all branches. In addition, there is one offsite ATM in El Campo and one in Wharton. The primary lending focus is commercial business lending, but officers also originate a significant number of consumer loans and residential real estate loans. Officers originate agriculture loans primarily in the El Campo and Wharton branches.

As of March 31, 2008, the bank had assets of \$325 million and a Tier One Leverage Capital ratio of 8.28 percent. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the assessment area. The bank received a satisfactory rating at the prior examination dated March 31, 2003.

*Please refer to NewFirst's CRA Public File for more information about this institution.*

## **Description of Assessment Area**

The bank's assessment area (AA) includes all census tracts (CTs) in the contiguous Texas counties of Wharton, Jackson, Victoria, and Fort Bend. In Harris County, the southwest and northwest sectors were chosen as the AA. All of Harris County is too large to effectively serve. The bank has a branch in Fort Bend County close to southwest Harris County, and it has a branch almost in the center of northwest Harris County. Considering the location of these two branches, the bank can reasonably serve these two sectors of Harris County. The AA has a total of three hundred seventy five (375) CTs. Of the CT income designations, fifteen (15) or 4 percent are low-income CTs, seventy nine (79) or 21 percent are moderate-income CTs, and one hundred thirty six (136) or 36 percent are middle-income. Upper-income CTs are one hundred forty four (144) or 38 percent of the total, and the bank has one tract in its AA that is designated NA, without an income designation. The entire AA has an approximate population of 2.1 million persons and 813 thousand housing units of which 446 thousand are owner-occupied units. The weighted average of the 2008 updated median family income is \$59,692 for the AA.

Community contacts in the bank's AA have identified needs for mortgage financing for individuals at or below 80 percent of the median income, mortgage loans for persons with low credit scores, and mortgage counseling on specifically how and what documents are needed to complete a mortgage application. In addition to mortgage loans, contacts have identified the needs of small loans to businesses and loans to individuals to construct new homes. NewFirst officers have originated loans to low- and moderate-income borrowers, especially moderate-income borrowers, to purchase, improve, and refinance homes. In addition, officers originate a satisfactory volume of loans to small businesses.

## **Wharton County**

Wharton County is a center for agriculture commerce producing rice, milo, corn, cotton, soybeans, and beef cattle. The county is one of the top three rice producing counties in Texas. The county's population was estimated at 41 thousand in 2006, slightly more than the 1990 population of 40 thousand. The median family income in 2000 was \$39,919. About 15 percent of the population lives below the poverty level. El Campo is the largest city with a population of approximately 11 thousand according to City Development Corporation estimates. Nearby Wharton is the county seat, and it has an estimated population of 9 thousand. The next largest city in population is East Bernard with an estimated population of 2 thousand. The bank has a main office in El Campo, a branch in El Campo, and a branch in the city of Wharton.

Employment opportunities in Wharton County are limited. The employers having more than 250 employees are Greenleaf Nursery and Cardell Kitchen & Bath Cabinetry. Other major employers with less than 250 employees include Wal-Mart, El Campo Memorial Hospital, and H.E.B. grocery. The unemployment rate is estimated at 4.9 percent in 2006 according to county sources.

## **Jackson County**

Jackson is adjacent to and southeast of Wharton County. It is a center of a prosperous agricultural area and also has petroleum and natural gas production. The county has an estimated population of 14 thousand according to the 2000 U. S. Census. The median family income in 2000 was \$42 thousand. About 15 percent of the population lives below the poverty level. Edna is the largest city with a population of 6 thousand according to the 2000 U.S. Census, and it is the county seat. The next largest city is Ganado with an estimated population of 2 thousand. The bank does not have an office in Jackson County; however, county residents are served by the Wharton and Victoria County offices that are a reasonable driving distance away.

The Jackson County Chamber of Commerce and Agriculture lists Jackson County industry as Formosa Plastic Corporation, Holloway Shunts, Inc., and The Inteplast Group. Also listed are the Jackson County Industrial Foundation and Mercer Controls.

## **Victoria County**

Victoria is adjacent to and southeast of Jackson County. It is an area experiencing growth in plastics manufacturing, expanding petrochemical and industrial chemical plants, and a rebirth of oil and gas exploration. Also, it is in the seven counties referred to as the "Golden Crescent" area. The county has an estimated population of 84 thousand according to the 2000 U.S. Census. The median family income in 2000 was \$44,000. About 13 percent of the population lives below the poverty level. The city of Victoria is the largest city with a population of 61 thousand according to the 2000 Census, and it is the county seat. Victoria is located within a two hour drive of Austin, San Antonio, and Houston, Texas. Victoria College with an enrollment of 4 thousand

and University of Houston-Victoria with an enrollment of 3 thousand are both located in Victoria. The bank has one branch in the city of Victoria.

According to the Victoria Economic Development Corporation, employers with more than 1 thousand employees include Victoria Independent School District, Formosa Plastic, The Inteplast Group, Citizens Medical Center, and DeTar Healthcare System.

### **Fort Bend County**

Fort Bend is one of the fastest growing counties in the United States. The county had a population of 510 thousand according to the 2007 U.S. Census Bureau estimate with a growth rate since the 2000 Census of 44 percent. Part of Houston, Texas is in Fort Bend County. The unemployment rate is 7 percent and 7.5 percent of the population live below the poverty level. Major employers include the Fort Bend Independent School District with more than 8 thousand employees and Flour Corporation with approximately 3 thousand employees. Sugar Land has the second largest economic activity after Houston and is the third largest city in the Houston metropolitan area. Sugar Land has the most important and fastest growing economic center in Fort Bend County. It is the headquarters for Exxon Mobil and Western Airways. Engineering firms and other related industries are an economic engine for Sugar Land and Fort Bend County. Most of the bank's branches are in Fort Bend County. The bank has a branch in the cities of Rosenberg, Sugar Land, and Needville.

Banking competition is intense. Major competitors in the area include Capital One, Wells Fargo Bank, N.A., Chase Bank USA, N.A., Citibank, N.A., and GE Capital Financial, Inc.

### **Harris County**

Harris County is the largest county in Texas and the third largest in the nation with a population of 3.9 million according to the 2007 U.S. Census Bureau estimate and a growth rate since the 2000 Census of 15 percent. It is the most populous county in Texas and the 3rd most populous county in the United States. The 2006 U.S. Census Bureau shows an unemployment rate of 7.5 percent, and 16 percent of the population lives below the poverty level. The median family income in 2006 was \$53,779. The county seat is Houston. Houston is the largest city in Texas and the 4th largest city in the nation. Recent U.S. Census information estimated the Houston population at more than 2 million in 2006.

Houston has the largest medical center in the world, the Texas Medical Center. The Center's economic impact exceeds \$10 billion annually, and it has approximately 61 thousand employees. Also, Houston is second only to New York City in Fortune 500 company headquarters, and more than 5 thousand energy related firms are located in the city. Texas recently surpassed New York in the total number of Fortune 500 companies, and this is mostly attributable to Houston. Major employers include Continental Airlines, Administaff, Halliburton, Wal-Mart Stores, Exxon Mobil, Kroger Company, Memorial Hermann Healthcare System, and The University of Texas Medical

Branch, all with more than 13 thousand employees each. The bank has one branch in northwest Harris County.

Banking competition is intense. The five largest competitors in the county include JP Morgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., and Washington Mutual Bank.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The Lending Test is rated satisfactory.

#### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable. It is close to a ratio of peer group banks. The quarterly ratio since the prior CRA examination is 70.47 percent. A peer group of banks with less than \$1 billion in assets in the same counties had a loan-to-deposit ratio of 75.53 percent for the same time period. Although below the peer group average, the bank's ratio is not significantly below.

#### Lending in Assessment Area

Lending in the AA is a majority inside the AA. It meets the standards for satisfactory performance. The bank's performance is shown in the following table:

<b>Table 1 - Lending in NewFirst Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	77	77.78	22	22.22	99	4,929	74.13	1,720	25.87	6,649
Home Imprvmnt	169	91.35	16	8.65	185	6,009	86.59	931	13.41	6,940
Home Refinance	43	91.49	4	8.51	47	2,489	73.27	908	26.73	3,397
Commercial	30	83.33	6	16.67	36	3,542	80.39	864	19.61	4,406
Consumer	30	88.24	4	11.76	34	381	84.27	71	15.73	452
Totals	349	<b>87.03</b>	52	12.97	401	17,350	<b>79.43</b>	4,494	20.57	21,844

Source: data reported under HMDA, sample of loans.

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

Overall, lending to borrowers of different incomes and to businesses of different sizes shows reasonable penetration to low- and moderate-income borrowers and small businesses. The bank's lending meets the standards for satisfactory performance.

We compared loan originations for home purchase, home improvement and home refinance to the percentage of AA families based on 2000 U.S. Census information.

The bank’s performance in lending to low-income borrowers is below the characteristics of the AA, but affordability and availability of homes limits the ability to lend to low-income borrowers. For lending to moderate-income borrowers for home purchase and home refinance, the bank’s performance exceeds the characteristics of the AA. Performance is shown in the following table:

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in NewFirst AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.31	<b>5.27</b>	16.08	<b>23.68</b>	18.36	31.58	46.25	39.47
Improvement	19.31	<b>6.81</b>	16.08	<b>10.20</b>	18.36	21.09	46.25	61.90
Refinancing	19.31	<b>9.30</b>	16.08	<b>18.60</b>	18.36	27.91	46.25	44.19

Source: data reported under HMDA; U.S. Census data.

Lending to businesses of different sizes shows reasonable penetration and meets the standards for satisfactory performance. The percentage of loan originations to small businesses with revenues of \$1 million or less by number is near to the characteristics of the AA. By dollar, the percentage exceeds the characteristics of the AA. Performance is shown in the following table:

<b>Table 2A - Borrower Distribution of Loans to Businesses in NewFirst AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67.82	5.48	26.70	100%
% of Bank Loans in AA by #	<b>63.33</b>	33.33	3.34	100%
% of Bank Loans in AA by \$	<b>72.77</b>	26.80	0.43	100%

Source: loan sample, Dunn and Bradstreet data.

Lending to consumers shows reasonable penetration and meets the standards for satisfactory performance. The percentage of loan originations to low- and moderate-income borrowers slightly exceeds the characteristics of the AA. Performance is shown in the following table:

<b>Table 2B - Borrower Distribution of Consumer Loans in NewFirst AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans *	19.40	<b>20.00</b>	16.42	<b>16.67</b>	18.13	26.67	46.05	23.33

Source: loan sample; U.S. Census data. \*Income information not available for 13.33% of loans reviewed.

### Geographic Distribution of Loans

Overall, the geographic distribution of loans shows reasonable dispersion.

We compared loan originations to the percentage of owner-occupied homes in the AA and found reasonable dispersion. Performance in low-income CTs for home purchase and home refinance exceeds the characteristics of the AA and compensates for no loans originated for home improvement. Similarly, the bank’s performance in moderate-income CTs for home purchase and home refinance compensates for the performance in home improvement lending. Further, we found that thirty-one (31) residential real estate loans were originated in CTs in Wharton County that are considered distressed because of population loss. These loan originations are not reflected in the table below. Performance is shown in the following table:

Table 3 - Geographic Distribution of Residential Real Estate Loans in NewFirst AA								
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
Home Purchase	1.00	<b>2.60</b>	12.28	<b>11.69</b>	34.28	49.35	52.44	36.36
Improvement	1.00	<b>0.00</b>	12.28	<b>8.88</b>	34.28	50.30	52.44	40.82
Refinance	1.00	<b>2.33</b>	12.28	<b>18.60</b>	34.28	37.21	52.44	41.86

Source: data reported under HMDA; U.S. Census data.

The geographic distribution of loans to businesses shows reasonable dispersion. Loan originations in low-income CTs is near to the characteristics of the AA. Lending in moderate-income CTs is adequate. While not reflected in the table below, officers originated four loans to businesses in CTs in Wharton County considered distressed because of population loss. Performance is shown in the following table:

Table 3A - Geographic Distribution of Loans to Businesses in NewFirst AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial All *	4.00	<b>3.34</b>	21.07	<b>13.33</b>	36.27	33.33	38.39	50.00

Source: loan sample; U.S. Census data. \*0.27% of all businesses in the AA are in tracts designated NA.

The geographic distribution of consumer loans shows reasonable dispersion although below the characteristics of the AA. The tremendous population growth in Fort Bend County has influenced the dispersion in low- and moderate-income CTs. Fort Bend has only one low-income tract and four moderate-income tracts. While not reflected in the table below, an officer originated one loan in a distressed area because of population loss in Wharton County. Performance is shown in the following table:



<b>Table 3B - Geographic Distribution of Consumer Loans in NewFirst AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Numb er of Loans	% of AA Households	% of Number of Loans
Consumer Loans	4.42	<b>3.34</b>	21.22	<b>13.33</b>	34.25	40.00	40.11	43.33

*Source: loan sample; U.S. Census data.*

## Responses to Complaints

The bank did not receive any CRA related complaints during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

Overall, the bank's performance for the Community Development Test is satisfactory and reflects adequate responsiveness to the needs of the AA. The level of community development lending is satisfactory. It is concentrated in affordable housing. The level of investments is satisfactory and consists of one investment and several qualifying donations. The bank has a reasonable level of services.

### Number and Amount of Community Development Loans

The level of community development loans is satisfactory. Officers originated eleven (11) loans totaling \$4.2 million for affordable housing multi-family properties since the prior CRA examination. Most of the rents charged were significantly below the average monthly rental rates of the AA. Of the total, seven loans totaling \$1.4 million were in the AA. Two loans totaling \$2.5 million were outside the AA but located in Houston, Texas in Harris County. One in the amount of \$160 thousand is in a moderate-income CT. The other in the amount of \$2.5 million is in a low-income CT. Since the bank has a branch in northwest Houston and will consider originating loans in any location in Harris County, we concluded these two loans benefited the greater regional area of Harris County and are qualified community development loans. Considering the volume of lending in the AA and Harris County, we concluded the needs of the AA are being met. Therefore, we also included two loans totaling \$106 thousand located outside the AA but within a reasonable distance from a bank branch. One is in Port Lavaca that is close to the Victoria branch. The other is in Texas City in Galveston County, and it is not far from Harris County and Fort Bend County.

### Number and Amount of Qualified Investments

The level of community development investments is satisfactory. Qualifying investments are investments, deposits, membership shares, or grants that have as their primary purpose community development as defined in the CRA regulation. The definition includes investments and contributions meeting the definition of community development. NewFirst purchased a \$1.2 million qualified investment in a Federal

National Mortgage Association (FNMA) security through the Federal Home Loan Bank of Dallas. The investment is a pool of affordable housing loans in Houston, Texas.

In addition to the FNMA investment, the bank originated eight (8) qualifying community development donations totaling \$5 thousand during the evaluation period. These donations were to local charities and service organizations that serve low- and moderate-income residents.

### **Extent to Which the Bank Provides Community Development Services**

The bank has a reasonable level of community development services. The bank's branch distribution is reasonable. The Rosenberg branch in Fort Bend is located in a moderate-income CT. In addition, the branches in El Campo are located in designated distressed areas because of population loss. Although the other branches are not located in low- or moderate income CTs or distressed CTs, they are reasonably accessible for low- and moderate income residents. Hours of operation are reasonable.

Officers are active in several organizations with a community development purpose. For example, officers are involved in the following:

- Serving as the secretary, the committee member reviewing applicant credit, the member calculating debt to income ratio, and the interviewer of applicants for the Habitat for Humanity.
- Tutoring low-income students at a local elementary school.
- Serving as the President of the Wharton Chamber of Commerce supporting the mentoring of low-income or at risk children and supporting Habitat for Humanity projects.
- Serving on the committee to award need based scholarships at Needville High School and the Cy Fair Independent School District.
- Serving with the Brazos Bend Guardianship Services that provides services for low- and moderate-income residents of Fort Bend County.

NewFirst offers a standard array of deposit and loan products. In addition, NewFirst offers the Freedom Checking Account. It is a free personal checking account requiring only a \$100 minimum amount to open. After opening, the account does not have a minimum required balance or monthly maintenance fee. Also, there is no charge for a check card, and it features free e-banking and telebanking. As of May 30, 2008, Freedom Checking Accounts were 31 percent of the bank's demand deposit accounts. Recently, NewFirst opened several Interest on Lawyers Trust Accounts (IOLTA) that help provide civil legal aid to the poor and support improvements to the justice system. At June 2008, the bank maintained accounts for six local law firms.

### **Responsiveness to Community Development Needs**

NewFirst has a satisfactory level of and responsiveness to community development needs. Officers have originated several affordable housing multi-family apartment complex loans. In addition, the level of investments and services is satisfactory.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.