



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 16, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank In Falfurrias
Charter Number 14072**

**200 South St. Mary Street
Falfurrias, TX 78355**

**Comptroller of the Currency
San Antonio South
10101 Reunion Place Boulevard, Suite 402
San Antonio, TX 78216-4160**

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.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.	1
DESCRIPTION OF INSTITUTION	1
DESCRIPTION OF Brooks County and Jim Wells County	2
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	3

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

The First National Bank in Falfurrias' lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas.

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, market focus, and lending opportunities available in the assessment area.
- A substantial majority of loans, representing 90 percent of the number and 89 percent of the dollar volume, are within the bank's assessment area.
- The distribution of loans to individuals of different income levels is good with a strong penetration of loans to low- and moderate-income individuals.
- The geographic distribution of loans is reasonably dispersed throughout the assessment area given the demographics of the assessment area.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

The First National Bank in Falfurrias (FNB) is a retail community bank located in Falfurrias, Texas, the county seat of Brooks County. FNB has one office, no affiliates, and is not a subsidiary of a holding company. FNB is a Sub Chapter S Corporation. FNB's primary market focus is loans to low- and moderate-income individuals. As of March 31, 2001, FNB had total assets of \$53 million with net loans of \$11 million representing 21 percent of total assets. The previous CRA Performance Evaluation rating dated September 20, 1996 was satisfactory. There are no legal or other impediment that limits the bank's ability to meets the credit needs of the assessment area (AA).

Loan Category	\$ (000)	%
Consumer Loans	8,924	80
Commercial & Commercial Real Estate Loans	1,160	10
Agricultural & Farm Land Loans	869	8
Political Subdivision Loans	95	1
Other Loans	67	<1
Residential Real Estate Loans	49	<1
Total	11,164	100

DESCRIPTION OF Brooks County and Jim Wells County

FNB's AA is rural and encompasses all of Brooks County and the southernmost block numbering area (BNA) of Jim Wells County located immediately north and adjacent to Brooks County, including the town of Premont. Brooks County consists of two moderate-income BNAs and has a population of 12,250 based on the 1990 Census. The Jim Wells County BNA is middle-income and has a population of 4,046. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. FNB's AA reasonably represents the bank's lending and service area. The income levels for families in the AA are 37.15 percent low-income, 16.94 percent moderate-income, 17.36 percent middle-income, and 28.55 percent upper-income. The following table reflects additional AA demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	3,058
Number of Households	3,952
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	66.67%
% Middle-Income Census Tracts/BNA	33.33%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$17,470
2001 HUD Census MFI	\$24,585
2001 HUD-Adjusted MFI	\$35,800
<i>Economic Indicators</i>	
Unemployment Rate	4.73%
Percent of owner occupied housing	64.48%
1990 Median Housing Value	\$26,831
% of Households Below Poverty Level	35.65%

Until recently, the economy of the AA was stagnant. Last year a privately owned detention center opened near Falfurrias and hired approximately 70 employees. The center is expanding and estimated to employ 250 people in the future. Currently, the AA's major employers are the school district, local government entities, a chain grocery store, and FNB.

FNB's primary competition consists of a state bank (Falfurrias State Bank, \$18 million in assets) and a federal savings bank (Greater South Texas Bank, FSB, \$50 million in assets) both located in Falfurrias. Wells Fargo Bank, NA has a branch facility in the community of Premont that offers some competition in that small community.

Interviews with two community members, a government official and a business group leader, disclosed information regarding the local economy and community credit needs. Both contacts stated the local economy is improving and a few new businesses are moving to the area. Both community contacts feel the area financial institutions were satisfactorily meeting the credit

needs of the community. Both contacts spoke very favorably of FNB's efforts to meet the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's primary market focus of loans to low- and moderate-income consumers, low loan demand, and high volume of public deposits. FNB's large volume of small consumer loans, while meeting a credit need, does not substantially increase their loan-to-deposit ratio. As of March 31, 2001, the loan portfolio was comprised of approximately 3,300 loans totaling \$11.2 million for an estimated average loan balance of \$3,394. Approximately 80 percent of FNB's portfolio is in consumer loans.

FNB's average loan-to-deposit ratio for the last 19 quarters was 22.95 percent. As of March 31, 2001, their loan-to-deposit ratio was 24.49. FNB's loan-to-deposit ratio is significantly below the other two similarly situated financial institutions in the AA. However, the focus of FNB's lending activities is toward consumer lending which inherently are smaller than commercial or residential loans. While the number of loans is high, the aggregate dollar volume is not. The primary loan products of the competing institutions are commercial loans and residential loans. The following table indicates the loan-to-deposit ratios for FNB as compared to these two similarly situated institutions as of March 31, 2001.

Institution	Assets (000's)	LTD Ratio
Falfurrias State Bank	18,268	70.50%
Greater South Texas Bank	50,131	68.49%
The First National Bank	52,876	24.49%

FNB's average loan-to-deposit ratio for the prior four quarters is 25.16 percent as shown below.

Date	Total Loans (000's)	LTD Ratio
June 30, 2000	9,956	25.07%
September 30, 2000	11,383	26.64%
December 31, 2001	11,474	24.44%
March 31, 2001	11,164	24.49%

Lending in Assessment Area

A management prepared analysis as of November 6, 2000, reflects a majority of the outstanding loans, 84 percent in both number and dollar volume, were made within the AA. Our sample of 20 consumer loans originated in the past 12 months also indicates a substantial majority of loans, both in number and dollar volume, were made within the AA as reflected in the following table:

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	18	90%	69	89%	2	10%	8	11%
Total Reviewed	18	90%	69	89%	2	10%	8	11%

Lending to Borrowers of Different Incomes

Loan distribution to individuals with different income levels within the AA exceeds the standard for satisfactory performance. Our review of 20 loans made within the last 12 months indicates 70 percent by number and 61 percent by dollar volume were to low- and moderate-income individuals as shown below:

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	40%		14%		15%		31%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	50%	31%	20%	30%	25%	33%	5%	6%

Geographic Distribution of Loans

FNB's geographic distribution of loans throughout the AA is reasonable. Based on our sample, the bank's level of consumer lending in moderate-income BNAs is 90 percent by number and 91 percent by dollar volume. This compares favorably with the number of households (66.52 percent) in moderate-income BNAs.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		66.52%		33.48%		0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
			90%	91%	10%	9%		

Responses to Complaints

FNB has not received any complaints or public comments regarding its CRA performance during

this evaluation period.

Fair Lending Review

An analysis of 2000 and 2001 public comments and 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 the CRA evaluation this year. The latest comprehensive fair lending exam was performed as of December 20, 1999. At that examination we did not identify any substantive violations of the anti-discrimination laws and regulations. Additionally, we did not detect any practices intended to discourage applicants from applying for the types of credit offered. Management solicits credit applications from all segments of the community. The Board and Management have developed adequate policies, procedures, and training programs to prevent discriminatory or other illegal credit practices.