



SMALL BANK

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

PUBLIC DISCLOSURE

January 17, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Chillicothe
Charter Number 12513**

**200 Avenue H
Chillicothe, TX 79225**

**Comptroller of the Currency
Fort Worth
9003 Airport Freeway Suite 275
North Richland Hills, TX 75201**

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 performance of The First National Bank of Chillicothe reflects satisfactory responsiveness to the community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio of 62% meets the standards for satisfactory performance given the banks 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 satisfactory penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF THE FIRST NATIONAL BANK OF CHILLICOTHE

The First National Bank of Chillicothe (FNB) is a community bank located in Chillicothe, Texas, which is located approximately 60 miles northwest of Wichita Falls, Texas. The bank operates from two locations. The main bank is located on U.S. Highway 287 in downtown Chillicothe. The branch bank is located in Quanah, Texas, which is approximately 16 miles west of Chillicothe, also on U.S. Highway 287. The branch is located in downtown Quanah. One Automated Teller Machine (ATM) is located in Quanah at the intersection of U.S. Highways 6 and 287.

FNB is a full-service bank offering a wide variety of loan and deposit products. As of September 30, 2005, FNB has total assets of \$36 million, loans of \$20.2 million, and deposits of \$30.3 million. The following tables present the bank's loan and deposit information as of September 30, 2005.

Loan Portfolio

Loan Type	Dollar Volume (000's)	Percentage of Loan Portfolio
Real Estate:		
Farmland	\$3,630	18%
1-4 Family	\$3,832	19%
Other	\$2,420	12%
Agricultural	\$3,630	18%
Commercial	\$2,622	13%
Consumer/Other	\$4,032	20%
Total	\$20,166	100%

Deposit Portfolio

Deposit Type	Dollar Volume (000's)	Percentage of Total Deposits
Demand Deposits	\$3,183	10%
Savings/NOW	\$5,722	19%
MMDA	\$1,085	4%
CD's less than \$100,000	\$13,690	45%
CD's greater than \$100,000	\$6,580	22%
Total	\$30,260	100%

FNB is owned by Northern Bancshares, Inc., which is a one-bank holding company. An affiliate relationship exists through common ownership with Western Bancshares, Inc., which owns Van Horn State Bank and First Bank of West Texas. The size of the bank somewhat limits the size of loans the bank can make. However, through participation agreements with other banks, FNB is able to handle larger lines for customers in the assessment area.

There have been no changes in the bank's corporate structure and none are currently planned. Primary competition comes from two other national banks located in Quanah. Secondary competition is posed from financial institutions in both Vernon and Wichita Falls, Texas.

The most recent CRA examination was performed as of August 6, 2001. 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 HARDEMAN COUNTY

FNB has defined its assessment area (AA) as Hardeman County. The AA is legal and meets the requirements of the regulation. Approximately 4,724 persons live within Hardeman County. The county is not in a Metropolitan Statistical Area (MSA). Chillicothe and Quanah are the two largest communities within the county. There is only one census tract in the county and it is middle-income. There are no low- or moderate-income census tracts in the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF HARDEMAN COUNTY	
<i>Population</i>	
Number of Families	1,343
Number of Households	1,960
<i>Geographies</i>	
Number of Census Tracts	1
% Low-Income	0.00%
% Moderate-Income	0.00%
% Middle-Income	100.00%
% Upper-Income	0.00%
<i>Median Family Income (MFI)</i>	
2005 MFI for Hardeman County	\$36,380
2005 HUD-Adjusted MFI	\$42,000
<i>Economic Indicators</i>	
Unemployment Rate	4.10%
2005 Median Housing Value	\$31,000
% of Households Below Poverty Level	17.00%

Based on updated Housing and Urban Development (HUD)-2005 Census information, the median family income for Hardeman County is \$42,000. The median housing value is \$31,000 with the median age of housing stock at 52 years. Within the assessment area, approximately 17% of the families are below the poverty level.

The primary credit needs of the community continue to be related to the agriculture industry and related credit needs including financing for home purchase or home improvement, automobile, and other consumer loans. The economy of the area is not well diversified and is dependent primarily on the oil and gas and agriculture industries. These industries have been depressed for the past several years, and the area remains in one of the worst droughts on record. However, both oil and cattle prices are currently very strong and have rebounded over the past couple of years. Unemployment levels in the area have remained steady at 4%. Major employers in the county are Georgia Pacific in Quanah, school districts, hospitals, and city and county governments.

We considered information from one community contact. According to the contact, the local financial institutions are fulfilling the immediate credit needs of the community, and FNB plays a very proactive role in both community development and ensuring that the needs of low- and moderate-income individuals are met. FNB places a strong emphasis on establishing customer relationships and ensuring a high level of service.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity since the last examination dated August 6, 2001.

Loan-to-Deposit Ratio

Institution	Location	Average Loan/Deposit Ratio
<i>First National Bank</i>	<i>Chillicothe, Texas</i>	62%
Texas Republic Bank, NA	Quanah, Texas	53%
First National Bank	Quanah, Texas	38%

FNB's loan-to-deposit ratio (LTD) meets the standards for satisfactory performance. The bank's average quarterly LTD since the prior examination is 62%. The average ratio for the other two banks in the assessment area is 46%. The bank has a stable lending base.

Lending in Assessment Area

FNB's lending in the assessment area meets the standards for satisfactory performance. The bank does not internally monitor the percentage of loans made within the assessment area. Therefore, our conclusions are based on a sample of loans we reviewed during the examination. We reviewed 20 1-4 family mortgage loans and 20 commercial purpose loans. Of the 40 loans in this sample, 32, or 80%, were made within Hardeman County.

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

FNB's lending to businesses of different sizes is satisfactory. Ninety-six percent of the businesses in the bank's assessment area have gross annual revenues of less than \$1 million. We reviewed a sample of 11 commercial and business purpose loans. This was the total number of business purpose loans with current tax information. Of the total loans in this sample, 91% were to businesses with gross annual revenues of less than \$1 million.

Lending to Borrowers of Different Income Levels 1-4 Family Mortgage Sample								
Assessment Area Data	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
Family Data	309	21%	283	20%	237	16%	614	43%
Sample Loans	4	20%	4	20%	6	30%	6	30%

FNB's lending to borrowers of different income levels is satisfactory. The distribution of loans in our sample reflects satisfactory penetration between both low- and moderate-income families.

We reviewed a sample of 20 1-4 family mortgage loans to reach this conclusion. The results of this review are presented in the table above.

Geographic Distribution of Loans

A geographic distribution analysis was not performed. There are no low- or moderate-income census tracts within the bank's defined assessment area of Hardeman County.

Responses to Complaints

FNB has not received any complaints pertaining to CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.