



SMALL BANK

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

PUBLIC DISCLOSURE

September 13, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Newton
Charter Number 12898**

**Main And Rusk Streets
Newton, TX 75966**

**Comptroller of the Currency
Houston East Field Office
1301 McKinney Street, Suite 3410
Houston, TX 77010**

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.

First National Bank of Newton (FNBN) is responsive to the credit needs of its community including low- and moderate-income individuals in the bank's assessment area (AA). The following factors support this conclusion:

- FNBN's lending performance exceeds the standard for satisfactory performance. A substantial majority of FNBN's loans have been originated within its assessment area.
- FNBN's loan-to-deposit ratio meets the standard for satisfactory performance, given the bank's size, financial condition, and the assessment area credit needs. The bank's loan-to-deposit ratio has averaged 58.5 percent for the 20 quarters since the last CRA evaluation.
- The distribution of loans to borrowers of different income levels reveals a reasonable penetration of residential real estate loans to low-and moderate-income individuals and is representative of the demographics of the bank's assessment area.
- The geographic distribution of loans reveals a reasonable penetration of loans in the low- and moderate-income Census Tracts and meets the standard for satisfactory performance.
- FNBN has originated 2 community development loans during this evaluation period.
- The bank's assessment area meets regulatory requirements.
- There have been no CRA complaints received during the current evaluation period.

DESCRIPTION OF INSTITUTION

The First National Bank of Newton is a \$110 million full service community bank wholly-owned by County Bancshares, Inc., headquartered in Newton, Texas, with branch locations in Buna, Kirbyville, Jasper, Vidor, and Orange, Texas. The bank serves its customers with six full service locations that include motor banking. All branches, except the Kirbyville location, offer automated teller machines on their premises. The bank acquired two new branches since its last CRA evaluation that expanded the bank's assessment area to include Jefferson, Hardin, and Orange counties, which comprise the Beaumont – Port Arthur Metropolitan Statistical Area (MSA). First Texas Bank in Vidor, Texas opened October 2001 and CountyBank in Orange, Texas opened March 2002. No branches have been closed since the previous evaluation period.

To help meet the credit needs of its community, the bank offers a wide range of deposit and loan products for consumers and small business. Banking hours reasonably meet community needs with lobby hours Monday through Friday, extended Friday hours, and Saturday motor banking at the Vidor location. The bank is active in providing credit to low- and moderate-income borrowers.

Commercial lending and one- to four-family residential mortgage lending are the bank's primary

lending focus. The bank originates owner-occupied residential real estate loans guaranteed by the United States Department of Agriculture, rural housing guaranteed program, and 100 percent financing through secondary markets. There are no financial or legal impediments that impede First National Bank of Newton from meeting the credit needs of the community.

The bank's last CRA examination was dated September 1999 and the bank received a rating of "Satisfactory."

Please refer to First National Bank of Newton's public file for more information about the institution.

DESCRIPTION OF ASSESSMENT AREA - Beaumont-Port Arthur MSA, Newton, and Jasper Counties

First National Bank of Newton has defined its assessment area (AA) as all of the Beaumont-Port Arthur MSA, Newton, and Jasper Counties. The bank's designated assessment area includes 113 census tracts of which 7 are designated as low-income, 25 are moderate-income, 58 are middle-income, 20 are upper-income, and 3 are designated as not applicable. The assessment area meets the requirement of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to the 2000 U.S. Census, the assessment area's population statistics are 435,766. The number of households reported as wage and salary labor force is considered stable at 73 percent, with 46 percent receiving social security and retirement income, 4 percent receiving public assistance, and 3.39 percent reported as unemployed. Households below poverty level are reported at 16 percent. There are 115,941 owner occupied single-family units and 52,924 rental housing units. The weighted average median value of a single-family residence is \$58,220 and the median family income is \$48,793. The weighted average monthly gross rent is \$462.

Major employers in the bank's assessment area are large industrial plants representing most major petrochemical companies in the world, correctional facilities, and independent school districts.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) meets the standard for satisfactory performance. As of June 30, 2004, the bank's LTD is 55.5 percent with an overall average of 58.5 percent for the 20 quarters since the last evaluation period. This meets the standard for satisfactory performance, given the bank's size, financial condition, assessment area credit needs, seasonal adjustments, and when compared to similarly situated banks.

First National Bank of Newton is subject to strong competition from other banks and non-bank financial entities in its assessment area especially in the Jefferson County area which is

comprised of the 7 low-income and 23 of the 25 moderate-income census tracts in the bank's defined AA.

Performance was compared with other similarly sized banks located in the assessment area. The period of comparison used for the three similarly situated institutions was the 20-quarter history since the bank's last CRA evaluation and is depicted in the table below.

Institution	Assets ('000's) as of 06/30/04	Average LTD Ratio
Bridge City State Bank	83,432	66.9
Lamar Bank	111,936	69.3
First National Bank of Jasper	195,385	29.0
<i>First National Bank of Newton</i>	<i>110,060</i>	<i>58.5</i>

Lending in Assessment Area

First National Bank of Newton exceeds the standard for satisfactory performance for lending within its AA both in number and in dollar volume. Residential real estate and commercial lending comprise the majority of the loan portfolio and are the bank's primary lending focus. A loan sample of 93 residential real estate and commercial loans reviewed revealed 95.9 percent of the number and 97.6 percent of the dollar amount were originated within the bank's AA. Performance for each category reviewed demonstrated a substantial portion of loans is made in the AA as reflected on the following table.

Table 1 - Lending in Beaumont-Port Arthur MSA, Newton, and Jasper Counties										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Owner Occupied R/E	42	93.3	3	6.7	45	1,258,009	91	124,000	9	1,382,009
Commercial Loans	51	98.1	1	1.9	52	6,993,599	98.9	75,000	1.1	7,068,599
Totals	93	95.9	4	4.1	97	8,251,608	97.6	199,000	2.4	8,450,608

Source: Residential loan sample and Commercial sample of loans.

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

Overall, the bank's lending to borrowers of different incomes and to businesses of different sizes exceeds the standard for satisfactory performance when compared to the 2000 census demographic comparators.

First National Bank of Newton originated a total of 54 percent of the number of owner-occupied residential real estate loans to low- and moderate-income borrowers. The following table displays the bank's lending to borrowers of different incomes for owner-occupied residential real estate:

Table 2 - Borrower Distribution of Residential Real Estate Loans in Beaumont-Port Arthur MSA, Newton, and Jasper Counties								
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
Owner-Occupied Residential R/E	23	24	17	30	20	22	40	24

Source: Loan sample; 2000 U.S. Census data.

The bank originated 82 percent of the number and 75 percent of the dollar amount to businesses with gross annual revenues of less than \$1 million. The following table displays the bank's lending to businesses with gross annual revenues of \$1 million or less.

Table 2A – Borrower Distribution of Loans to Businesses/Farms in Beaumont-Port Arthur MSA, Newton, and Jasper Counties		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of Bank Loans in AA by #	82	18
% of Bank Loans in AA by \$	75	25

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

Overall, the geographic distribution of loans meets the standard for satisfactory performance. Our sample of 42 owner-occupied residential loans reveals that First National Bank of Newton has originated 7 percent of the total in moderate-income census tracts. The following table displays the geographic distribution of First National Bank of Newton's lending practices based on our sample of owner-occupied residential real estate:

Table 3 - Geographic Distribution of Residential Real Estate Loans in Beaumont-Port Arthur MSA, Newton, Jasper Counties								
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
Owner-Occupied Residential R/E	2.78	0	14.91	7	59.22	36	23.08	7

Source: Loan sample; U.S. Census data-2000.

Our sample of commercial loans reveals that First National Bank of Newton has originated 6 percent of the total loans in moderate-income census tracts. The following table displays the geographic distribution of First National Bank of Newton's lending practices based on our sample of commercial loans:

Table 3A - Geographic Distribution of Loans to Businesses in the Beaumont-Port Arthur MSA, Newton, Jasper Counties								
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	2.7	0	20.2	6	50.2	88	26.9	6

Source: Loan sample; D and B data-2003.

The geographic distribution of residential real estate loans and commercial loans reveal a reasonable penetration of loans in the low- and moderate-income Census Tracts and is representative of the demographics of the bank's assessment area. All 7 low-income census tracts and 23 of the 25 moderate-income census tracts of the bank's assessment area are located in Jefferson County in the Beaumont-Port Arthur MSA where First National Bank of Newton faces the strong competition of larger national and state financial institutions, savings and loans, and finance companies.

Qualified Investments and CD Services

First National Bank of Newton originated two community development loans totaling \$575,000 during this evaluation period: \$525,000 to East Texas Support and \$50,000 to Lone Star Garden. East Texas Support provides daycare facilities and transportation services to low- and moderate-income individuals. Lone Star Garden provides reconstruction and rehabilitation of housing for very low-income individuals.

Responses to Complaints

First National Bank of Newton has not received any CRA related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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