



SMALL BANK

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

PUBLIC DISCLOSURE

August 20, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Dalhart
Charter Number 14199**

**302 Denrock Avenue
Dalhart, TX 79022**

**Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289 Suite 108
Lubbock, TX 79424**

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 Outstanding.

The First National Bank in Dalhart (FNB) has an outstanding record of meeting community credit needs. The major factors that support this rating include:

- The bank's loan-to-deposit ratio is more than reasonable when compared to banks of similar size and characteristics in or near the assessment area. The loan-to-deposit ratio averaged 72.7 percent during the evaluation period.
- A substantial majority of FNB's loans were located within the bank's assessment area. Based on a sample of sixty loans, 93.33 percent of the number of loans and 96.44 percent of the dollar volume of loans were to borrowers within the assessment area.
- FNB's distribution of loans to businesses with gross revenues of less than \$1 million is excellent. The bank has a reasonable penetration of loans to farms with gross revenues of less than \$1 million.

DESCRIPTION OF INSTITUTION

FNB is a community bank located in Dalhart, Texas, approximately 85 miles north of Amarillo. FNB is an intra-state bank with one banking office and drive-up facility. The bank is wholly owned by First Dalhart Bancshares, which reported total assets as of December 31, 2006 of \$52 million.

The bank offers a full range of commercial and consumer banking products and related financial products. The bank provides 24-hour access to banking services through its website at www.fnbdalhart.com. Services include account balance inquiries; funds transfer activities, and bill pay services. FNB also has a 24-hour telebanking service.

As of June 30, 2007, FNB had total assets of \$52 million, with net loans and leases comprising 74.9 percent of this total. The bank's loan products include business, farm, consumer, and residential real estate loans. The following table depicts FNB's loan portfolio composition.

Loan Portfolio Composition as of June 30, 2007		
Loan Type	\$ (000)	%
Business Loans	15,710	43.15%
Farm Loans	15,082	41.42%
Obligations of State & Political Subsidiaries	4,300	11.81%
Consumer Loans	671	1.84%
Residential Real Estate Loans	647	1.78%
TOTAL	36,410	100.00%

Source: June 30, 2007 Report of Condition

Management and the Board's primary focus are to serve the agricultural, commercial, and consumer customers in Dallam and Hartley Counties. The bank meets customers' needs by

providing traditional loan and deposit products. Bank lobby and drive-through services are provided Monday through Friday. Based on FNB’s financial condition, local economy, product offerings, and competition, the bank has the ability to meet the various credit needs in its community. FNB was rated “Satisfactory” at the previous CRA examination on April 15, 2002. FNB has no legal or financial circumstances that could impede the bank’s ability to help meet the credit needs in its assessment area. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF DALLAM AND HARTLEY COUNTIES

FNB has designated Dallam and Hartley Counties as its assessment area (AA). Dalhart is the county seat of Dallam County and is situated on its southern border. Dalhart is located just above the northern border of Hartley County. Other principal cities located within the AA include Channing, Hartley, and Texpline. Specific demographic data and economic data for Dallam and Hartley Counties are listed below.

Demographic and Economic Characteristics of Dallam and Hartley Counties AA	
<i>Population</i>	
Number of Families	2,883
Number of Households	3,913
<i>Geographies</i>	
Number of Census Tracts	3
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	66.67%
% Upper-Income Census Tracts	33.33%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,380
2007 HUD-Adjusted MFI	41,800
2006 HUD-Adjusted MFI	43,100
2004 & 2005 HUD-Adjusted MFI	42,000
<i>Economic Indicators</i>	
Unemployment Rate	1.38%
2006 Median Housing Value	\$61,719
% of Households Below Poverty Level	12.34%

Source: 2000 Census data and HUD updated income data.

The AA consists of only whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of three census tracts consisting of two middle- and one upper-income tract. The 2000 Census data reflects that 12.4 percent of the households in Dallam and Hartley Counties are below the poverty level. Federal agencies have designated the middle-income census tracts located in Dallam County as distressed areas as a result of population losses.

According to 2000 Census data, the AA has a total population of 11,759. There are 4,457 housing units in the AA, of which 60.3 percent are owner-occupied, 27.7 percent are renter-occupied, and 12.0 percent are vacant. Approximately 14.8 percent of families in the AA are considered low-income. Moderate-income families approximate 17.2 percent, while middle- and

upper- income families make up the remaining 68.0 percent. The median housing value is \$61,719, with the median age of housing stock at 43 years.

There are six financial institutions in the AA, which results in a high level of competition for financial services. In addition to FNB, there are two branches of large non-local national banks, two branches of area state banks, and a local savings bank. The June 30, 2006 FDIC Deposit Market Share Report for Dallam and Hartley Counties shows FNB to have the second largest deposit market share with over 23.3 percent of the deposits.

The local economy has an agricultural focus. The economic conditions are robust and the outlook remains excellent. The Hilmar Cheese Plant will become operational in October 2007 and will create approximately 125 jobs. Initially, the plant will receive 250,000 pounds of milk per day and produce up to 500,000 pounds of cheese per day. The cheese plant has attracted new dairies to the area which has increased the number of real estate acquisitions by outside investors. In addition, both area farmers and outside investors continue to purchase farm land to increase the size of their operations to take advantage of the economies of scale. This has caused the average farm size in the AA to increase. The 2002 National Agricultural Statistics Service census report indicated that the average farm size for the area was in excess of 2,100 acres. The primary employers of the AA include; Dallam County ISD, Dallam Hartley Counties Hospital District, Premium Standard Farms, and Burlington Northern Santa Fe and Union Pacific Railroads.

As part of this CRA examination, three community contacts were made in the bank's AA to help ascertain the credit needs of the AA. According to the contacts, the immediate credit needs of the community are being fulfilled. The contacts stated that the local banks were responsive in meeting the needs of the local community. Two of the contacts indicated that the largest challenge for the area is attracting and retaining an adequate workforce.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This Performance Evaluation (PE) assesses FNB's performance focusing primarily on five performance criteria: the loan-to-deposit ratio; lending in the AA; lending to businesses and farms of different sizes; geographic distribution of loans; and responses to CRA related complaints.

To evaluate FNB's lending performance, a sample of 60 loans was reviewed. Major loan products offered by the bank were sampled and consisted of 29 business loans and 31 farm loans. Based on the analysis and consistent with available resources and capabilities, FNB is meeting the credit needs of the AA in an outstanding manner.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. This determination is based on the bank's quarterly average loan-to-deposit ratio from March 30, 2002 through June 30, 2007 of 72.7 percent. During the evaluation period, FNB's loan-to-deposit ratio ranged from a low of 55.1 percent to a high of 87.4 percent.

The quarterly average loan-to-deposit ratio for each bank in the AA, and area banks in geographies similar to the AA, is depicted below. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 6/30/07)	Average Loan-to-Deposit Ratio
First National Bank in Dalhart	52,509	72.67%
The First National Bank of Canadian	85,438	34.53%
The Perryton National Bank	91,319	46.54%
First National Bank – Spearman	90,464	61.75%
First State Bank – Spearman	78,265	54.07%
Gruver State Bank	35,453	59.44%

Source: Institution Reports of Condition from March 2002 to June 2007

Lending in Assessment Area

FNB's lending in their AA exceeds the standards for satisfactory performance. A substantial majority of the bank's loans were made within its AA. In order to assess performance for this criterion, we reviewed 31 farm and 29 business loans originated between January 2004 and March 2007. Our analysis determined that 93.3 percent of the number of loans and 96.4 percent of the dollar amount of loans in the sample were originated within the bank's AA. The breakdown by loan category is depicted in the following table.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	25	86.21	4	13.79	100.0	3,662	82.65	769	17.35	100.0
Farm	31	100.00	0	0.0	100.0	17,180	100.00	0	0.00	100.0
Totals	56	93.33	4	6.67	100.0	20,073	96.44	769	3.56	100.0

Source: Sample of loans used for CRA performance analysis

Lending to Businesses and Farms of Different Sizes

FNB's loan portfolio reflects an excellent distribution among businesses of various income levels and farms of different sizes within their AA. To perform our analysis, we reviewed income information of 31 farm and 25 business loans in the AA.

Business Loans – Based on 2007 Business Demographic Data, there are 1,232 businesses within the AA. Of this number, 50.9 percent of businesses reported revenues less than or equal to \$1 million. Of the loans in the business sample, 100.0 percent were to businesses reporting annual revenues below \$1 million. This level of performance reflects an excellent penetration of business loans with revenues less than \$1 million. The following table reflects the results of our selected sample of business loans originated in the AA.

Borrower Distribution of Business Loans in Dallam and Hartley Counties				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	50.89%	3.08%	46.03%	100%
% of Bank Loans in AA by #	100%	0.0%	0.0%	100%
% of Bank Loans in AA by \$	100%	0.0%	0.0%	100%

Source: Loan sample; Dunn and Bradstreet data

Farm Loans - Based on 2007 Business Demographic Data, there are 273 farms within the AA. Of this number, 91.9 percent of farms reported revenues less than or equal to \$1 million. Of the loans in the farm sample, 71.0 percent were to farms reporting annual revenues below \$1 million. This level is lower than of the AA and reflects a reasonable penetration of loans to small farms. Recent economic activity in the AA indicates that farm sizes have increased and now average well in excess of 2,100 acres. This trend is reflected in FNB's farm customers having a higher level of revenues than reported in the AA.

Borrower Distribution of Farm Loans in Dallam and Hartley Counties				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	91.94%	3.30%	4.76%	100%
% of Bank Loans in AA by #	70.97%	29.03%	0.0%	100%
% of Bank Loans in AA by \$	47.08%	52.92%	0.0%	100%

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

Because no census tracts are identified as low- or moderate-income, this analysis was not considered meaningful, and therefore it was not performed.

Responses to Complaints

No complaints relating to CRA performance have been received by FNB during the evaluation period. FNB has systems in place to ensure that complaints are addressed in a timely manner.

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.