



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 01, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Bank Of Conroe, National Association
Charter Number 18612**

**1800 W. White Oak Terrace
Conroe, TX 77304**

**Comptroller of the Currency
Assistant Deputy Comptroller - Houston
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 Outstanding.

First Bank of Conroe, National Association (FBC) is highly responsive to the credit needs of its community, including low- and moderate-income individuals and small businesses located in Montgomery County. The following factors support this conclusion:

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size and credit needs of its assessment area.
- A substantial majority of the bank's loans and lending-related activities are within the assessment area.
- The distribution of loans within the assessment area to individuals of different income levels is excellent.
- Lending to small businesses exceeds the standard for satisfactory performance.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

FBC is a \$174 million community bank, which opened in 1985 as a member of First Bancorporation of Cleveland, Inc., and became an independent bank in May 1987. Currently, FBC is the only local, independent bank in the city of Conroe, Texas. Of the 14 banks and one credit union in the Conroe area, all of the banks except FBC are branches of large financial institutions. FBC operates from six offices, with the main office on West White Oak Terrace and the Loop 336 located in an upper-income census tracts in Conroe. One of the Montgomery offices is located in an upper-income census tract on Hwy 105 West and the other is in a middle-income census tract on Liberty Street. The Magnolia branch is located on FM 1488 in a middle-income census tract. The newest branch, located in a moderate-income census tract near Cut and Shoot, Texas, opened in June 2002. Automated teller machines (ATMs) are available at all branches with an additional cash dispensing-only ATM located in a middle-income census tract in Willis, Texas. In October 2000, FBC moved the Loop 336 office to a newly constructed building across the street from the original location. Banking hours are reasonable and meet the needs of the community, with regular lobby hours Monday through Thursday and extended lobby hours on Friday. The main office is the only office that does not offer Saturday hours.

FBC is affiliated, by common ownership, with First Bank and Trust of East Texas, First National Bank of Quitman, First State Bank of Jasper, and Pineland State Bank.

FBC is primarily a commercial lender. At December 31, 2002, loans represented 83% of total assets. The following table illustrates the portfolio composition:

LOAN PORTFOLIO COMPOSITION AS OF DECEMBER 31, 2002		
LOAN CATEGORY	\$(000)	%
Construction/Land Development	46,448	33.61
Commercial Real Estate	32,162	23.27
Commercial Loans	28,357	20.52
Consumer Loans	19,184	13.88
Residential Real Estate	10,319	7.47
Agriculture Loans	1,622	1.17
Other	122	.08
TOTALS	138,214	100

FBC offers a variety of loan and deposit products, including conventional mortgage loans, Small Business Administration loans, mini-perm loans, consumer loans, commercial loans, deposit accounts, certificates of deposit, and Individual Retirement Accounts. The mortgage department also offers Federal Housing Authority and Veterans Administration loan products. FBC introduced Quick-Connect Online Banking in 2002 and online bill-pay in November 2003. These new online products supplement A.R.T.I.E., which is a toll-free telephone inquiry system available to FBC customers 24 hours a day.

There are no financial or legal impediments that prevent FBC from meeting the credit needs of the community. The corporate structure changed in December 2000 when Sam Baker succeeded Dan Dominey as President and Chief Executive Officer (CEO). Dan Dominey, who vacated his officer position to pursue other business interests, continues to serve as a director. President and CEO, Sam Baker, is a former President of Jasper State Bank, Jasper, Texas, and a former loan officer with FBC.

The September 28, 1998, CRA examination resulted in a satisfactory rating.

DESCRIPTION OF MONTGOMERY COUNTY

FBC has designated all of Montgomery County, Texas as its assessment area. The county, known as the "Birthplace of the Lone Star Flag," covers over 1,000 square miles and is the 15th largest county in Texas. The county consists of 39 census tracts and encompasses the communities of Conroe, Montgomery, Magnolia, Willis, Cut and Shoot, Splendora, New Caney, Porter, The Woodlands, and Shenandoah. The assessment area meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

According to the 1990 census, Montgomery County had a population of approximately 182,000. 2002 estimates provided by the Greater Conroe Economic Development Council indicate the current population is over 300,000. The population is projected to grow to 370,000 by 2007.

Conroe is centrally located in Montgomery County, 45 miles north of downtown Houston. The Greater Conroe Economic Development Council estimates that Conroe, the county seat of Montgomery County, currently has a population of more than 38,000. Conroe's economy has

greatly diversified in the last twenty years with the growth of industries such as manufacturing, retail, health care, biotechnology, construction, and tourism. Employment opportunities are largely centered in the trade and service sectors.

Additional demographic and economic characteristics of the assessment area are presented in the following table.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF MONTGOMERY COUNTY		
POPULATION (1990 CENSUS DATA)		
Number of Individuals		182,201
Number of Families		50,488
Number of Households		63,676
GEOGRAPHIES (1990 CENSUS DATA)		
	NUMBER IN AA	PERCENT OF TOTAL
Low-Income Census Tracts	1	2.56%
Moderate-Income Census Tracts	9	23.08%
Middle-Income Census Tracts	18	46.15%
Upper-Income Census Tracts	11	21.28%
TOTAL NUMBER CENSUS TRACTS IN AA	39	100%
MEDIAN FAMILY INCOME		
1990 Median Family Income for AA		\$36,886
2002 HUD-Adjusted Median Family Income		\$59,600
PERCENT OF FAMILIES BY INCOME LEVEL (1990 CENSUS DATA)		
Low-Income Families		20.8%
Moderate-Income Families		17.1%
Middle-Income Families		22.2%
Upper-Income Families		39.9%
HOUSING		
Number of Housing Units		73,871
Percent Owner Occupied		61.91%
1990 Median Housing Value		\$69,831
ECONOMIC INDICATORS		
Unemployment Rate		2.7%
% of Households Below Poverty Level		11.83%

Financial services competition in Conroe is intense. There are 14 branches of large financial institutions and one credit union in the Conroe area. Furthermore, three new branches of Houston area banks are scheduled to open in Conroe in the near future.

We contacted a community leader to discuss economic conditions and credit needs. The contact

was not aware of any credit needs that have not been addressed. Additionally, the contact spoke highly of banks operating in the assessment area, including FBC.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

This review focused on construction/land development loans, commercial loans, consumer loans, and residential real estate loans. We sampled a minimum of 20 loans for each product line. All loans sampled for this analysis were originated between September 30, 1998 and December 31, 2002, with particular emphasis on loans originated between January 1, 2001 and December 31, 2002. Based on these samples, FBC has demonstrated outstanding performance in meeting the credit needs of the assessment area, including low- and moderate-income families.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is more than reasonable given FBC's size and credit needs of the assessment area. Although many other financial institutions have branches in Montgomery County, FBC is the only bank headquartered in Montgomery County. The average quarterly LTD ratio since the 1998 CRA examination was 82%. For comparison purposes, the LTD ratio for all similarly sized banks headquartered in adjacent Harris County averaged 76% on June 30, 2003. FBC's ratio as of the same date was 83%.

The following table presents the LTD ratio for the bank and the ratios for banks of similar size in Harris County, as of June 30, 2003:

Institution	Assets (\$000)	LTD
Southwestern National Bank	138,893	99.27%
First Bank of Conroe, N. A.	174,323	82.59%
Houston Community Bank, N. A.	128,805	80.97%
American First National Bank	191,252	77.45%
1st Choice Bank	187,960	74.59%
Capital Bank	119,345	69.07%
Crosby State Bank	151,982	54.16%

Lending in Assessment Area

A substantial majority of FBC's loans and lending-related activities are within the assessment area and reflect an excellent record of addressing credit needs in the assessment area. Since 1998, FBC has experienced average annual loan growth of approximately 13%, which has consistently outpaced average annual deposit growth for the same period at 9%. The following table details the bank's lending activities in and out of the assessment area. Based on our findings, FBC's performance materially exceeds the standards for a satisfactory rating.

Lending in Montgomery County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$(000)	%	\$(000)	%	\$(000)
1-4 Family Residential	20	87	3	13	23	1,338	42	1,885	58	3,223
Consumer Loans	20	83	4	17	24	145	61	91	39	236
Construction/Land Development Loans	20	91	2	9	22	9,410	96	415	4	9,825
Commercial Loans	22	88	3	12	25	2,992	88	391	12	3,383
Totals	82	87	12	13	94	13,885	83	2,782	17	16,667

Source: Loan sample and 2002 HMDA data.

Opening the Cut and Shoot branch in June 2002 has presented more opportunities for FBC to serve the community. The Cut and Shoot branch has met a need for credit and financial services in a previously underserved area. The branch is the first financial institution located in the area. This area of the county is comprised of predominantly moderate-income census tracts. In fact, the branch is centrally located in a moderate-income tract and surrounded by other moderate-income tracts. Also, the only low-income tract in the assessment area is close to the Cut and Shoot branch.

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

The distribution of loans within the assessment area to individuals of different income levels is exceptional. For this analysis, we reviewed residential real estate loans, consumer loans, commercial loans, and construction/land development loans. Findings from our analysis of residential real estate loans are presented in the following table. Our sample included 20 home purchase loans originated in the assessment area during 2002. Lending to low-income borrowers is reasonable considering the limited opportunity to lend. According to census data, 70.19% of the 1,080 housing units located in low-income census tract are rentals. Lending to moderate-income borrowers exceeds the standard for satisfactory, as it exceeds the percent of moderate-income families in the assessment area.

Borrower Distribution of Residential Real Estate Loans in Montgomery County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
1-4 Family Residential	20.8%	5.0%	17.1%	20.0%	22.2%	10.0%	39.9%	65.0%

Source: 2002 HMDA data and 1990 U. S. Census Data.

The following table demonstrates the results of the consumer loan analysis. For this review, we sampled 20 consumer loan originations within the assessment area. Lending to low- and moderate-income borrowers is more than reasonable and significantly exceeds the percent of households in each category.

Borrower Distribution of Consumer Loans in Montgomery County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Households in AA	% of Number of Loans	% of Households in AA	% of Number of Loans	% of Households in AA	% of Number of Loans	% of Households in AA	% of Number of Loans
Consumer Loans	23.0%	40.0%	15.2%	40.0%	19.9%	10.0%	41.9%	10.0%

Source: Loan Sample and 1990 U. S. Census Data.

As illustrated by the tables above, the distribution of loans, given the demographics of the assessment area, reflects excellent penetration among individuals of low- and moderate-income levels.

Our combined analysis of commercial and construction/land development loans provides additional support for this conclusion. For this analysis, we sampled 20 construction/land development loans and 22 commercial loans, for a total of 42 loans. We performed two breakdowns of business information. First, we reviewed all of the business loans, including loans to start-up businesses. As illustrated by the table below, including start-up businesses in the analysis reflects excellent dispersion of loans to small businesses and exceeds the standard for satisfactory performance.

Borrower Distribution of Loans to Businesses in Montgomery County		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	92.70%	7.30%
% of Bank Loans in AA by #	83.33%	16.67%
% of Bank Loans in AA by \$	94.09%	5.91%

Source: Loan sample; Dunn and Bradstreet data.

* 5.22%% of AA businesses did not report revenue data.

Next, we excluded six loans or 14.28% of the sample, because the businesses did not report revenue. Each of the excluded businesses was a start-up business, which reflects positively on FBC’s commitment to the credit needs of small businesses and the community. The results from this analysis are detailed in the table following table.

Borrower Distribution of Loans to Businesses in Montgomery County
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Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	92.70%	7.30%
% of Bank Loans in AA by #	80.56%	19.44%
% of Bank Loans in AA by \$	90.89%	9.11%

Source: Loan sample; Dunn and Bradstreet data.

* 5.22%% of AA businesses did not report revenue data.

The combined analysis indicates that FBC’s lending pattern to small businesses exceeds the standard for satisfactory performance and reflects excellent dispersion of loans to businesses with revenues of less than \$1,000,000.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. To reach this conclusion, we analyzed each of the loan types. FBC is active in each of the 39 census tracts in the county with loan and/or deposit products. Overall, geographic distribution of lending within the assessment area is proportionately dispersed in relation to census demographics.

The following table reflects FBC’s performance for commercial and construction/land development loans. FBC is lending to businesses in all census tracts and lending in low- and moderate-income census tracts exceeds the assessment area demographic.

Geographic Distribution of Loans to Businesses in Montgomery County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Construction/Land Development Loans	3.68%	0	20.44%	30.00%	39.89%	35.00%	35.99%	35.00%
Commercial Loans	3.68%	9.09%	20.44%	45.45%	39.89%	40.91%	35.99%	4.55%

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

The next two tables reflect FBC’s performance for residential real estate and consumer loans. For residential real estate, lending patterns are commensurate with the area demographic, and more than reasonable considering the percent of owner occupied units and opportunity to lend. The one low-income census tract, which is only 2.56% of the assessment area, borders downtown Conroe and has numerous retail stores, industrial strip centers, and commercial businesses.

Geographic Distribution of Residential Real Estate Loans in Montgomery County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
1-4 Family Residential	.50%	5.0%	21.1%	45.0%	50.0%	30.0%	28.4%	20.0%

Source: 2002 HMDA data; 1990 U.S. Census data.

Findings from the consumer loan sample are illustrated below and reflect excellent penetration in moderate-income areas, as the number of loans exceeds the area demographic.

Geographic Distribution of Consumer Loans in Montgomery County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Consumer Loans	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households	% of Number
	1.3%	0	22.8%	40.0%	45.3%	50.0%	30.6%	10.0%

Source: Loan sample; 1990 U.S. Census data.

In summary, the geographic distribution of all loans sampled within the assessment area exceeds the standard for satisfactory performance considering the demographics of Montgomery County especially in low- and moderate-income tracts.

Responses to Complaints

FBC has not received any complaints about its performance in helping to meet the assessment area needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

An analysis of four years of public comments, consumer complaint information, and applicable Home Mortgage Disclosure Act information was performed according to the Comptroller of the Currency's risk based fair lending approach. Based on its analysis of information, the Comptroller of the Currency 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 examination was performed in 2002. That examination did not find any instances of discrimination or disparate treatment.

Other Information

Directors, officers, and employees are active in many community activities, and take particular interest in youth and educational based activities. For instance, FBC sponsors a Junior Board of Directors, comprised of graduating seniors from area high schools. The Junior Board meets monthly under the direction of a senior loan officer and administrative personnel. The mission of the Junior Board of Directors is to promote civic leadership, responsibility, and knowledge of the bank's community and business environment. FBC also sponsors credit education programs at area schools, including a program for high school seniors that addresses credit card debt management.

Both President Baker and Director Sadler are active directors of the Greater Conroe Economic Development Council, whose purpose is to enhance the greater Conroe economy by supporting and attracting industries that bring capital and employment opportunities to the community. Through this organization, FBC also participates in a Conroe banking consortium that supports economic development by providing loans and banking assistance to existing and potential Conroe industries.