



SMALL BANK

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

PUBLIC DISCLOSURE

July 18, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Midland
Charter Number 23681**

**123 North Colorado
Midland, TX 79701**

**Comptroller of the Currency
Lubbock (West Texas)
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 Satisfactory.

First National Bank of Midland (FNBM) has a satisfactory record of meeting the community credit needs. This conclusion is based on factors evaluated through review of bank records and samples of the bank's primary loan products. These factors are summarized below:

- FNBM's loan-to-deposit ratio is reasonable, averaging 45.7 percent since the last CRA examination. This level is reasonable given the bank's size, financial condition, and competition for loans in the assessment areas.
- A substantial majority of FNBM's loans are to borrowers within the assessment areas.
- FNBM has a reasonable penetration of loans to borrowers across income levels and to small businesses with different revenue levels.
- The geographic distribution of loans reflects a reasonable dispersion throughout the bank's assessment areas.
- There have been no complaints regarding FNBM's performance under the CRA.

DESCRIPTION OF INSTITUTION

FNBM is an intrastate bank headquartered in Midland, Texas. FNBM was chartered in 1998. The bank is wholly owned by First Midland Nevada Corporation, which is owned by First Bancshares of Texas, Inc. Total assets as of March 31, 2005 were \$131 million, with gross loans at that date of \$68 million.

The bank offers a full range of commercial banking products and related financial services through its branch network within West Texas. The bank provides access to banking services through its website at www.fnbmidland.com. Services available on-line include deposit account and loan balance inquiries, funds transfer, and bill payment services. FNBM locations include the main bank and two branches in Midland, Texas, and one branch in Amarillo, Texas. FNBM's location in Amarillo is known as First Bank of Texas. The two Midland branches have drive-up facilities and ATM's.

Although the bank is primarily a commercial lender, consumer, residential real estate, and agricultural loans are available. The following chart details a breakdown of FNBM's loan portfolio as of March 31, 2005.

Loan Portfolio Composition as of March 31, 2005		
Loan Category	\$ (000)	%
Commercial and Industrial	35,049	51.31
Residential Real Estate	11,508	16.85
Construction/Development	7,513	11.00
Commercial Real Estate	6,592	9.65
Consumer	4,792	7.00
Agricultural and Agricultural Real Estate	1,295	1.89
Other	1,552	2.30
Total	68,301	100.00

Source: Report of Condition

There are no legal or financial impediments to FNBM's ability to help meet the credit, investment, and service needs of its assessment areas. FNBM's Tier 1 Capital level is \$9.4 million representing 7.42 percent of adjusted average assets as of March 31, 2005. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF ASSESSMENT AREAS

FNBM has designated two assessment areas in West Texas. These areas meet the regulatory requirements of the Act as they both are all whole geographies and do not reflect any illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. The assessment areas are Midland County, Potter County, and Randall County. These counties contain all the bank's offices and comprise the area where the majority of the bank's loans are made. Both assessment areas were reviewed during this examination.

Description of the Midland County Assessment Area

This assessment area has the bank's main office and two branch locations, all in the city of Midland. Midland is located in the northern part of the county and is the county seat. Smaller communities also located within the assessment area include Spraberry and Greenwood. Specific 2004 demographic data and economic data for the assessment area is listed below:

Demographic and Economic Characteristics of Midland County Assessment Area	
Population	
Number of Families	31,158
Number of Households	42,751
Geographies	
Number of Census Tracts/BNA	27
% Low-Income Census Tracts/BNA	7.41
% Moderate-Income Census Tracts/BNA	22.22
% Middle-Income Census Tracts/BNA	40.74
% Upper-Income Census Tracts/BNA	29.63
Median Family Income (MFI)	
2000 MFI for AA	47,309
2004 HUD-Adjusted MFI	54,600
Economic Indicators	
Unemployment Rate	2.56
2004 Median Housing Value	74,413
% of Households Below Poverty Level	12.00

Source: 2000 Census data and HUD updated income data.

Based on 2000 Census data, the assessment area has a total population of 116,009. There are 48,060 total housing units, of which 62 percent are owner-occupied units, 27 percent are renter-occupied, and 11 percent are vacant. Approximately 21 percent of the families in the assessment area are considered low-income. Moderate-income families approximate 19 percent, while middle- and upper income families comprise the remaining 60 percent. 1,981 households, or approximately 5 percent, live in low-income census tracts. Moderate-income households comprise approximately 17 percent of the total. The economy of Midland County is tied closely to the oil and gas production industry, which currently benefits from the high oil prices on the world market. Sizable oil and gas reserves are located in the Permian Basin, and a number of oil companies and oil field service companies have a significant presence in the area. The primary employer is the local school district, but Key Energy Services and Basic Energy Services employ 2,072 and 1,500 persons respectively. Cingular Wireless, the local hospital, and Midland Junior College employ nearly 1,000 persons each.

Competition is strong in the assessment area. The county had 39 offices of 14 FDIC-insured financial institutions as of June 30, 2004. This includes federally and state chartered banks. There are also several credit unions and small loan companies that offer financial services.

An interview with an individual in the community noted that the local financial institutions are responsive in meeting the needs of local businesses, both in terms of funding and assistance through local groups to bring new businesses into the area. In addition, the individual noted that a strong trend in the oil and gas industry has resulted in a decline in the availability of rental housing. The current level of 250 homes available in the housing inventory is low compared to the typical level of 750 homes.

Description of Potter-Randall Counties Assessment Area

This assessment area has one bank location located in the city of Amarillo. Construction on another branch in Amarillo is scheduled to begin soon. Amarillo is located on the county line between Potter County to the north and Randall County to the south. The counties are located in the middle of the Panhandle Region of Texas. Other smaller communities located in the assessment area include Bushland and Canyon. Specific 2004 demographic data and economic data for the assessment area is listed below:

Demographic and Economic Characteristics of Potter-Randall Counties Assessment Area	
Population	
Number of Families	56,603
Number of Households	82,998
Geographies	
Number of Census Tracts/BNA	59
% Low-Income Census Tracts/BNA	5.08
% Moderate-Income Census Tracts/BNA	30.51
% Middle-Income Census Tracts/BNA	37.29
% Upper-Income Census Tracts/BNA	27.12
Median Family Income (MFI)	
2000 MFI for AA	43,719
2004 HUD-Adjusted MFI	50,500
Economic Indicators	
Unemployment Rate	2.74
2002 Median Housing Value	75,771
% of Households Below Poverty Level	14.00

Source: 2000 Census data and HUD updated income data.

Based on 2000 Census data, the assessment area has a total population of 217,858. There are 87,859 total housing units, of which 61 percent are owner-occupied units, 32 percent are renter-occupied, and 7 percent are vacant. Approximately 20 percent of the families in the assessment area are considered low-income. Moderate-income families approximate 19 percent, while middle- and upper income families comprise the remaining 61 percent. 1,546 households, or approximately 2 percent, live in low-income census tracts. Moderate-income households comprise approximately 29 percent of the total. The area economy is impacted by agriculture and by oil and gas, but there is considerable diversification, and the economic trends remain favorable in the assessment area. Major industries and employers in addition to the local school districts and hospitals are the Pantex Plant, Tyson Food, and Affiliated Foods. The local Bell Helicopter plant has expanded also, with the acquisition of contracts to build tiltrotor aircraft for the military. Amarillo serves as an economic hub for many smaller communities in other counties as well. Housing construction is another major factor that currently helps drive the economy. The forecast is for the economy to remain healthy for some time.

There is significant competition in Amarillo for both loans and deposits; with 14 other FDIC-insured financial institutions and a total of 56 other branches in the assessment area that accept deposits. There are also credit unions and small loan companies lending in the assessment area.

An interview with an individual in the community indicated that there is currently housing construction occurring throughout all parts of the community. There are some homes available that would be affordable for moderate-income families. The local banking institutions were commended for willingness to lend and availability of loan products to meet the needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNBM's performance is satisfactory. Management has been successful in meeting the credit needs of the bank's assessment areas, including lending to small businesses and individuals of different income levels.

In selecting the bank's primary loan products for our analysis, we reviewed loan originations since January 1, 2003, to coincide with the time the bank has been active in both markets. This review showed that the bank's primary product is commercial loans considering the volume of loans made. Consumer loans are the primary product considering the number of loans originated. The following chart shows originations reviewed:

Primary Loan Products		
Loan Type	% by Number of Loans Originated/Purchased	% by Dollars of Loans Originated/Purchased
Home Loans	19.06	10.49
Business Loans	24.93	38.04
Consumer Loans	35.54	4.65
Construction Loans	7.89	13.35
Oil & Gas	6.49	13.41
Other Loans	6.09	20.06
Total	100.00	100

Source: Bank reports of originated loans

Our review showed that these conclusions were consistent for both assessment areas.

We also considered the length of time branches have been in operation. FNBM initially entered the Midland market in 1998 and opened the first branch in Midland. The second branch in Midland was opened in December 2002. FNBM opened the Amarillo location in January 2003. For this reason, lending performance in 2003, 2004, and year-to-date 2005 was given more consideration in the evaluation, as this time period was more reflective of actual performance in the assessment areas.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNBM is reasonable given the bank's size, financial condition, level of competition, and the credit needs of the assessment areas. The bank's quarterly average loan-to-deposit ratio was 46 percent since December 1999. The average loan-to deposit ratio of other banks within the assessment areas for the same period was somewhat higher than FNBM. Most other banks in the assessment area are larger and have more branches than FNBM. As of March 31, 2005, the bank's loan-to deposit ratio was near 57 percent, and the average over the last five quarters was 55 percent, reflecting improved lending as the bank has grown and expanded into a new market.

The quarterly average loan-to-deposit ratio for each similarly situated bank in the assessment areas is listed below.

Loan-to-Deposit Ratios		
Institution	Assets \$(000's) (As of March 31, 2005)	Average Loan-to-Deposit Ratio
West Texas State Bank, Odessa	177,152	66.27
First National Bank Monahans	207,721	83.32
West Texas National Bank, Midland	345,879	64.52
Community National Bank, Midland	351,331	64.04
First National Bank of Midland	131,353	45.66

Source: Institutions' Report of Condition

Lending in Assessment Area

A substantial majority of loans are to borrowers within the assessment areas. In order to assess performance for these criteria, we reviewed 50 consumer loans and 56 commercial loans originated between January 2003 and June 2005. Our analysis determined that 84.9 percent of the number of loans and 67.6 percent of the dollar amount of loans in the sample were extended within the bank's assessment areas. The breakdown by loan type and by assessment area is shown in the following charts.

Lending in Midland County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	22	81.5	5	18.5	27	4,420,766	79.7	1,126,788	20.3	5,547,554
Consumer	20	80.0	5	20.0	25	199,234	77.3	58,382	22.7	257,616
Totals	42	80.8	10	19.2	52	4,620,000	79.6	1,185,170	20.4	5,805,170

Source: Sample of loans.

Lending in Potter - Randall Counties Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	25	86.2	4	13.8	29	4,719,000	58.1	3,404,797	41.9	8,123,797
Consumer	23	92.0	2	8.0	25	287,835	89.3	34,500	10.7	322,335
Totals	48	88.9	6	11.1	54	5,006,835	59.3	3,439,297	40.7	8,446,132

Source: Sample of loans

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

FNBM's loan portfolio reflects a reasonable penetration among individuals and families of various income levels (including low- and moderate-income) and businesses of different sizes (including small business) within its assessment areas.

Midland County Assessment Area

FNBM is primarily a commercial lender in this assessment area. The bank also makes a significant number of loans for consumer purposes. To perform our analysis, we reviewed income information of 22 commercial-purpose loans and 20 consumer loans in this assessment area.

Lending to small businesses in the assessment is comparable to the percentage of small businesses in the assessment area, both for number of loans and for dollars of loans.

Borrower Distribution of Loans to Businesses in Midland County Assessment Area			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not Reported
% of AA Businesses	64.08	5.59	30.33
% of Bank Loans in AA by #	77.27	9.09	13.64
% of Bank Loans in AA by \$	68.14	29.61	2.25

Source: Loan sample; Dunn and Bradstreet data.

Lending to consumers with different income levels exceeds the demographic level of these households in the assessment area.

Borrower Distribution of Consumer Loans in Midland County Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	20.19	31.58	14.95	21.05	17.68	31.58	47.18	15.79

Source: Loan sample; U.S. Census data. Income information was not collected for 1 loan.

Potter-Randall Counties Assessment Area

FNBM is primarily a commercial lender in this assessment area also, specifically commercial real estate. The bank also makes a significant number of loans for consumer purposes. To perform our analysis, we reviewed income information of 25 commercial loans and 23 consumer loans in this assessment area.

Borrower Distribution of Loans to Businesses in Potter-Randall Counties Assessment Area			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Not Reported
% of AA Businesses	67.05	4.99	27.95
% of Bank Loans in AA by #	76.00	12.00	12.00
% of Bank Loans in AA by \$	81.99	14.30	3.71

Source: Loan Sample: Dunn and Bradstreet Data

FNBM's lending to small businesses in the assessment area exceeds the level of small businesses in the assessment area, both for the number and dollars of loans made.

Borrower Distribution of Consumer Loans in Potter - Randall Counties Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22.87	37.50	16.91	6.25	18.87	0.00	41.36	56.25

Source: Loan sample; U.S. Census data. Income information was not collected for 7 loans.

FNBM has a very good level of loans to low-income consumers in this assessment area. The level of lending to moderate-income households is below the demographic level of those households in the assessment area. The bank does not have a minimum loan policy, and four loans in the sample were made for \$3 thousand or less, making credit available to credit-worthy applicants of different income levels.

Geographic Distribution of Loans

We performed a review of the geographic distribution of loans in both the Midland County Assessment Area and the Potter County/Randall County assessment area. The geographic distribution of loans reflects a reasonable dispersion throughout the bank's assessment areas.

Midland County Assessment Area

The geographic distribution of loans in the Midland County Assessment Area reflects a reasonable dispersion when both primary products are considered.

FNBM's geographic dispersion of small business loans in low- or moderate-income areas needs improvement when compared to the demographic composition of the Midland County assessment area. Based on 2000 Census information, 36.7 percent of small businesses were located in low- and moderate income census tracts. Our review determined that 11.29 percent of business loans made were located in low- and moderate-income census tracts.

Geographic Distribution of Loans to Small Businesses in Midland County Assessment Area								
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
Business	5.72	0.00	30.95	11.29	37.10	14.45	26.23	74.25

Source: Loan sample; Dunn and Bradstreet data.

Geographic distribution of loans to consumers in the Midland County Assessment Area is very good. In both low- and moderate-income tracts, the number of loans made to borrowers in low- or moderate-income tracts exceeded the level of households in those tracts. The branch locations provide access to borrowers in various census tracts.

Geographic Distribution of Consumer Loans in Midland County Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	4.63	5.00	17.23	30.00	44.58	30.00	33.55	35.00

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

Potter-Randall Counties Assessment Area

The geographic distribution of loans in this assessment area is satisfactory given the performance context consideration of the bank's primary product in the assessment area and the location of the branch. Because the bank is primarily a commercial lender in the assessment area, we gave more consideration to the geographic distribution of business credits in evaluating the bank's performance in the assessment area.

Geographic distribution of loans to businesses is reasonable. The level of loans to businesses in low-income tracts is slightly below the percentage of businesses located in those tracts. However, the volume of loans to businesses in moderate-income tracts slightly exceeds the percentage of businesses in the moderate-income tracts. Taken overall, the performance is satisfactory for business loans in the assessment area. The following chart shows the results of our sample review for business loans:

Geographic Distribution of Loans to Businesses in Potter-Randall County Assessment Area								
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
Business	11.87	8.00	26.98	28.00	35.55	32.00	25.60	32.00

Source: Loan sample; Dunn and Bradstreet data.

Geographic distribution of consumer loans in the assessment area needs improvement. There are very few households in low-income tracts in the assessment area. FNBM has only been in the market for two years with one location. Consumer loans have been made mainly to borrowers in middle-income tracts, in part, because that is the location of the bank.

Geographic Distribution of Consumer Loans in Potter - Randall Counties Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	1.89	0.00	28.60	8.7	41.57	60.87	27.54	30.43

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

Responses to Complaints

There were no complaints received by the bank regarding their performance under the CRA.

Fair Lending or Other Illegal Credit Practices Review

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