



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 16, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Hereford
Charter Number 23692

301 West Third Street
Hereford, TX 79045-0000

Office of the Comptroller of the Currency

ADC-LUBBOCK Field Office
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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 First National Bank of Hereford (FNBH) has a satisfactory 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 (AA). The loan-to-deposit ratio averaged 79.60 percent during the evaluation period.
- A majority of FNBH's loans are within the bank's AA. Based on a sample of loans, 78.43 percent of the number of loans and 72.92 percent of the dollar volume of loans were to borrowers located within the AA.
- Lending performance to small farms and small businesses is excellent.
- The geographic distribution of farm loans is comparable to the demographic composition of the AA and reflects reasonable dispersion.

SCOPE OF EXAMINATION

This Performance Evaluation assesses CNB's record of meeting the credit needs of the community in which it operates. We evaluated CNB under the small bank performance criterion, which includes five performance criteria: the loan-to-deposit ratio, lending within the AA, lending to borrowers of different incomes, geographic distribution of loans, and responses to CRA-related complaints. The evaluation period for this CRA examination is from June 2006 through March 2012. The loan sample consisted of 29 agricultural loans and 22 business loans originated between December 31, 2009 and March 31, 2012.

DESCRIPTION OF INSTITUTION

FNBH is an intrastate bank located in Hereford, Texas, which is approximately 50 miles southwest of Amarillo, Texas. FNBH has three full-service banking locations with associated drive-up facilities. The main bank is located in Hereford, Texas, which is situated in Deaf Smith County. FNBH opened a branch on the north side of Hereford during the fourth quarter of 2009. The second branch is located in Friona, Texas, which is approximately 25 miles southwest of Hereford in Palmer County. The bank is a wholly owned subsidiary of La Plata Bancshares, Inc. La Plata Bancshares, Inc. reported total assets of \$11.5 million as of December 31, 2012.

The bank offers a full range of commercial and consumer banking products and related financial services. Bank lobby services are provided at the main facility and the branches Monday through Friday. The bank provides access to banking services through its website at www.fnbhereford.com. Internet banking services are free and include account balance inquiry and bill pay. The bank also offers telephone banking, various deposit products, and automated teller machine (ATM) services.

As of March 31, 2012, FNBH had total assets of approximately \$124 million, with 66 percent in the loan portfolio. The bank is primarily an agricultural lender, with some commercial lending. The following table details a breakdown of FNBH's loan portfolio as of March 31, 2012.

Loan Portfolio Composition as of March 31, 2012		
Loan Category	\$ (000's)	%
Agricultural	30,093	36.48
Commercial & Industrial	25,165	30.51
Residential RE	12,449	15.09
Agricultural RE	6,403	7.76
Commercial RE	6,243	7.56
Consumer	2,142	2.60
Total	82,495	100.00

Source: March 31, 2012 Report of Condition

FNBH's business strategy is to provide outstanding banking services to customers in its AA while increasing the long-term value of the owners' investment. No legal impediments or other factors hinder FNBH's ability to provide credit in its AA. FNBH's Tier 1 capital level as of March 31, 2012 is \$11.11 million representing 8.98 percent of adjusted average assets. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks. The bank was rated "Satisfactory" at the last examination on June 26, 2006. Please refer to the bank's CRA Public File for more information.

DESCRIPTION OF ASSESSMENT AREA

FNBH has designated Deaf Smith and Parmer Counties as its AA. Cities within the AA include Hereford, Friona, Lazbuddie, Farwell, and Bovina. Hereford is the largest city and the county seat of Deaf Smith County. Parmer County is the adjacent county and located directly south of Deaf Smith. Farwell is the county seat of Parmer County. Demographic information about the AA is listed in the table below.

Demographic and Economic Characteristics of Deaf Smith & Parmer Counties AA	
Population	
Number of Families	7,459
Number of Households	9,462
Geographies	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0.0
% Moderate-Income Census Tracts/BNA	14.29
% Middle-Income Census Tracts/BNA	85.71
% Upper-Income Census Tracts/BNA	0.00
Median Family Income (MFI)	
2000 MFI for AA	36,380
2011 HUD-Adjusted MFI	48,600
Economic Indicators	
Unemployment Rate	4.4
2011 Median Housing Value	47,880
% of Households Below Poverty Level	18.79

Source: 2000 Census data and HUD updated income data

The AA is comprised of seven contiguous census tracts (CTs) and meets the requirements of the

regulation. No low- or moderate-income areas are arbitrarily excluded. One tract is designated as moderate-income, and six tracts are designated as middle-income. There are no low-income or upper-income CTs in the AA. Federal agencies have designated all six of the middle-income tracts as distressed due to population loss. Based on 2000 Census data, the AA has a total population of 28,577. There are 10,646 housing units in the AA, of which 61.71 percent are owner-occupied; 27.54 percent are renter-occupied; and 10.75 percent are vacant.

Deaf Smith and Parmer Counties are highly dependent on agriculture, especially beef cattle production. There are numerous cattle feed yards and dairies in both counties. One of the largest employers in Deaf Smith County is Caviness Beef Packers. The facility is a beef fabrication plant that operates two processing locations and markets products worldwide. The largest employer in Friona is Cargill Meat Solutions, which is a beef processing plant employing approximately 1,940 individuals.

Competition is high in the AA. In Hereford, there is a local state bank, one credit union, a branch from a national bank, a Federal Land Bank office, and branches of a statewide savings association. In Friona, there is a state bank, a national bank, a federal credit union, and an agricultural credit cooperative.

We interviewed one community contact in Hereford, Texas for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The representative, from a local community organization in Hereford, stated that the wind industry is interested in the area which could provide significant job growth. The contact also identified the hotel industry as a potential area for growth in Hereford. The interviewee credited local institutions for sustaining the local economy and stressed that public perception of the local institutions' involvement in the community was favorable. The contact believes that there is no displacement of low- or moderate-income individuals in any neighborhoods at this time.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation period for this CRA examination is from June 2006 through March 2012. FNBH's performance is satisfactory, and management has been successful in meeting the credit needs of the bank's AA, including lending to farms and businesses of different sizes and individuals of different income levels (including low- and moderate-income).

To evaluate FNBH's lending performance, we reviewed a random sample of 55 loans. Agricultural loans were identified as a primary loan product for the bank based on the dollar volume of loans originated during this period. Commercial loans were also identified as a primary loan type based on the number originated during the evaluation period and by dollar volume when considered collectively.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNBH is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average loan-to-deposit ratio from June 2006 through March 2012 was 79.60. During the evaluation period, FNBH's loan-to-deposit ratio ranged from a low of 70.06 percent to a high of 93.24 percent. The average loan-to-deposit

ratio of similarly situated banks within or contingent to the AA for the same period was 49.45 percent. The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the AA is listed below. Please note that these banks are listed alphabetically and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 03/31/12)	Average Loan-to-Deposit Ratio
First Bank of Muleshoe	104,569	31.64%
First Financial Bank (Hereford)	165,661	73.25%
First National Bank of Hereford	123,951	79.60%
Muleshoe State Bank	104,409	56.28%
Security State Bank (Farwell)	109,956	36.62%

Source: Institution Reports of Condition from June 2006 to March 2012

Lending in Assessment Area

FNBH’s lending in the AA meets the standards for satisfactory performance. A majority of the bank’s loans were made within its AA. In order to assess performance for this criterion, we reviewed 29 agricultural and 22 commercial loans originated between June 2006 and March 2012. Our analysis determined that 78.43 percent of the number of loans and 72.92 percent of the dollar amount of loans in the sample were extended within the bank’s AA. The breakdown by loan category is illustrated in the following table.

Lending in Deaf Smith & Parmer Counties AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	20	68.97%	9	31.03%	100%	5,058	67.75%	2,407	32.25%	100%
Commercial	20	90.91%	2	9.09%	100%	1,592	96.19%	63	3.81%	100%
Totals	40	78.43%	11	21.57%	100%	6,650	72.92%	2,470	27.08%	100%

Source: Loan sample

Lending to Farms and Businesses of Different Sizes

Lending performance to small farms and small businesses is excellent. To perform our analysis, we reviewed income information of 20 farm loans and 20 commercial loans in the Deaf Smith and Parmer Counties AA originated between June 2006 and March 2012.

Farm Loans – FNBH’s lending performance to small farms exceeds the standard for satisfactory performance. Of the loans in the sample, 95 percent were to farms reporting annual revenues below \$1 million. This level is comparable to the AA information and reflects excellent distribution of loans to small farms. The following table reflects the distribution of farm loans based on our sample.

Borrower Distribution of Loans to Farms in Deaf Smith & Parmer Counties AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	93.22%	3.88%	2.90%	100%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100%
% of Bank Loans in AA by \$	84.18%	15.82%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data

Commercial Loans – FNBH’s lending performance to small businesses exceeds the standard for satisfactory performance. Of the loans in the sample, 90 percent were to businesses with annual revenues less than or equal to \$1 million, and 10 percent were to businesses with annual revenues greater than \$1 million located in the Deaf Smith and Parmer Counties AA. Based on the 2011 business geodemographic data, approximately 66.48 percent of businesses in the AA have annual revenues of less than \$1 million. The following table reflects the distribution of commercial loans based on our sample.

Borrower Distribution of Loans to Businesses in Deaf Smith & Parmer Counties AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.48%	2.60%	30.92%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	79.91%	20.09%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

The geographic distribution of loans within the census tracts reflects reasonable dispersion given the bank’s business strategy and locations. Our analysis included 20 agricultural and 20 commercial loans originated from June 2006 through March 2012 within the bank’s AA. The AA has one moderate-income census tract, and there are no low-income census tracts. The moderate-income census tract is located in the city of Hereford, and customers within that tract have access to several financial institutions. The census tract represents a very small portion of the bank’s total AA.

Farm Loans – The performance in the middle-income census tract is comparable to the demographic composition of the AA and reflects reasonable dispersion. The following table reflects the results of our selected sample of farm loans originated in the AA.

Geographic Distribution of Loans to Farms in Deaf Smith & Parmer Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of Number of Loans						
Farms	0.00%	0.00%	2.71%	0.00%	97.29%	100.00%	0.00%	0.00%

Source: Loan sample; Dunn and Bradstreet data

Commercial Loans –FNBH’s lending to businesses in the moderate-income census tract does not meet the standard for satisfactory performance. Based on geographic data, 20.06 percent of AA businesses are located in the moderate-income tract, and zero loans in our sample were made to businesses in that tract. 100 percent of loans to businesses were originated in middle-income census tracts. However, six of the seven census tracts in the bank’s AA are middle-income census tracts, and all six are designated as distressed due to population loss. There are no low-income census tracts in the AA. Given the bank’s competition, proximity, and the large percentage of loans in distressed middle-income areas, the geographic distribution of business loans does not negatively impact the bank’s overall satisfactory CRA rating. The following table reflects the results of our selected sample of commercial loans originated in the AA.

Geographic Distribution of Loans to Businesses in Deaf Smith & Parmer Counties AA								
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
Businesses	0.00	0.00%	20.06%	0.00%	79.94%	100.00%	0.00	0.00%

Source: Loan sample; Dunn and Bradstreet data

Responses to Complaints

There were no complaints regarding the bank’s CRA performance, and this has a neutral impact on the bank’s overall performance. FNBH 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.