



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**July 28, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Sterling City  
Charter Number 9813

4th & Main  
Sterling City, TX 76951-0000

Office of the Comptroller of the Currency

Lubbock Field Office  
5225 South Loop 289 Suite 108  
Lubbock, TX. 79424-1319

**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 Sterling City (FNB) has a “Satisfactory” performance record under the Community Reinvestment Act (CRA). This rating is based on the following findings:

- FNB’s loan-to-deposit ratio is reasonable when compared to similarly situated financial institutions. The loan-to-deposit ratio averaged 38.58 percent during the evaluation period.
- A majority of FNB’s loans are located within the assessment area (AA). Based on a sample of 68 loans, 58.82 percent of the number of loans were to borrowers within the AA.
- FNB has an excellent penetration to borrowers of various income levels and to businesses of different sizes.
- An analysis of the geographic distribution of loans was not performed because there are no low-income or moderate-income census tracts in the bank’s AA.

**SCOPE OF EXAMINATION**

This Performance Evaluation assesses FNB’s record of meeting the credit needs of the community in which it operates. We evaluated FNB using four of the five small bank performance criteria: loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, and responses to CRA-related complaints. The fifth criterion, which is the geographic distribution of loans, was not evaluated because there are no low to moderate census tracts in the bank’s AA.

To evaluate FNB’s lending performance, a random sample of loans was selected based on the bank’s primary loan types. Primary loan types are those products that have been originated at the highest percentage by dollar and/or number of loans. Primary loan products during this evaluation period consisted of consumer and commercial loans. The loan sample consisted of 29 consumer loans and 39 commercial loans originated between January 2008 and June 2010.

**DESCRIPTION OF INSTITUTION**

FNB is a rural community bank in Sterling City, Texas, which is approximately 150 miles southeast of Lubbock. The bank is wholly owned by Sterling City Bancshares, a single-bank holding company. As of June 30, 2010, FNB had total assets of \$81 million, with 33.51 percent of total assets in the loan portfolio.

FNB is an intrastate bank with the main office located in Sterling City and two branches located in Garden City, Texas and Bronte, Texas. The bank’s primary loan products include consumer loans (by number and volume of loans) and commercial loans (by volume of loans). The following chart details a breakdown of FNB’s loan portfolio as of June 30, 2010.

| <b>Loan Portfolio Composition as of June 30, 2010</b> |                 |                |
|---|-----------------|----------------|
| <b>Loan Type</b>                                      | <b>\$ (000)</b> | <b>%</b>       |
| Commercial Real Estate                                | 679             | 2.50           |
| Commercial  | 5,645           | 20.77          |
| Residential Real Estate                               | 5,206           | 19.15          |
| Consumer  | 5,657           | 20.81          |
| Agriculture   | 5,187           | 19.09          |
| Agriculture Real Estate                               | 4,797           | 17.65          |
| Political Subdivisions                                | 7               | 0.03           |
| <b>TOTAL</b>  | <b>27,178</b>   | <b>100.00%</b> |

*Source: June 30, 2010 Call Report*

Bank lobby services at the main bank and both branches are provided Monday through Friday from 9:00 AM to 3:00 PM. The bank provides traditional banking services including a variety of loan and deposit accounts. A drive-up facility is located at the Bronte branch and operates Monday through Friday from 8:00 AM to 3:00 PM. FNB also offers online banking at [www.thefnb.com](http://www.thefnb.com). The online banking service provides access to account information, online transfers between accounts, and bill pay services. Based on its financial condition, the local economy, product offerings, and competition, FNB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on April 27, 2005.

FNB’s business strategy is to provide outstanding banking services to customers in its AA while increasing the long-term value of the shareholders’ investment. No legal impediments or other factors hinder FNB’s ability to provide credit in its AA. 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 AREA(S)**

FNB has designated Sterling, Glasscock, and Coke Counties as its AA. Coke County was added to FNB’s AA in 2008 when the First National Bank of Bronte was merged into FNB. Sterling, Glasscock, and Coke Counties are located in West Texas approximately 50 miles north of San Angelo. Specific demographic data and economic data for the AA are listed below.

| <b>Demographic and Economic Characteristics of Sterling, Glasscock, and Coke Counties AA</b> |          |
|--|----------|
| <i>Population</i>  |          |
| Number of Families   | 1,803    |
| Number of Households   | 2,526    |
| <i>Geographies</i>   |          |
| Number of Census Tracts  | 4        |
| % Low-Income Census Tracts   | 0.00%    |
| % Moderate-Income Census Tracts  | 0.00%    |
| % Middle-Income Census Tracts  | 100.00%  |
| % Upper-Income Census Tracts   | 0.00%    |
| <i>Median Family Income (MFI)</i>  |          |
| 2000 MFI for AA  | 36,380   |
| 2010 HUD-Adjusted MFI  | 46,500   |
| 2009 HUD-Adjusted MFI  | 45,600   |
| 2008 HUD-Adjusted MFI  | 43,600   |
| 2007 HUD-Adjusted MFI  | 41,800   |
| <i>Economic Indicators</i>   |          |
| Unemployment Rate  | 1.53%    |
| 2009 Median Housing Value  | \$50,483 |
| % of Households Below Poverty Level  | 14.17%   |

*Source: 2000 Census data and HUD updated income data.*

The AA consists of three contiguous counties and does not arbitrarily exclude any low- or moderate-income geographies. There are four census tracts in the AA consisting of one census tract each in Sterling and Glasscock Counties and two census tracts in Coke County. All four census tracts are designated as middle-income. Sterling City is the county seat of Sterling County and the only city in the county. Garden City is the county seat of Glasscock County and the only city in the county. Garden City is 32 miles west of Sterling City. Bronte is located in Coke County and is the second largest city in the county behind Robert Lee. Bronte is located 53 miles east of Sterling City.

Based on 2000 Census data, the AA has a total population of 6,663. There are 5,324 housing units in the AA, of which 36 percent are owner-occupied, 11 percent are renter-occupied, and 30 percent are vacant. Approximately 17 percent of the families in the AA are considered low-income. Moderate-income families approximate 18 percent of the population, and middle- and upper-income families comprise the remaining 65 percent. The local economy is based on agriculture and livestock, primarily cotton farming and cattle. Oil and gas production is also a significant economic factor for the AA. The AA has benefited from the growing wind power market. The largest non-agricultural employers within the AA include Range Petroleum, Conoco, Florida Power and Light, Edison Power, Eon Power, and the local school districts.

There are no other financial institutions in Sterling and Glasscock Counties. There is one other financial institution in Coke County, Robert Lee State Bank. There are numerous financial institutions within a 100-mile radius in San Angelo and Big Spring.

Two individuals in the community were interviewed 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 community contacts indicated that the local economy is stable and primarily driven by farming, ranching, the oil and gas industry, and the wind power market. Both individuals indicated that the local financial institutions are responsive in meeting the community’s credit needs.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

To evaluate FNB’s lending performance, a sample of 68 loans was reviewed. Primary loan products offered by the bank were sampled. The sample consisted of 29 consumer loans and 39 commercial loans. Based on the analysis, and consistent with available resources and capabilities, FNB is meeting the credit needs of the AA in a satisfactory manner.

**Loan-to-Deposit Ratio**

FNB’s loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the AA’s credit needs. This determination is based on the quarterly average loan-to-deposit ratio from March 31, 2005 to June 30, 2010. During the evaluation period, FNB’s loan-to-deposit ratio ranged from a low of 30.53 percent to a high of 52.15 percent. The bank’s quarterly average loan-to-deposit ratio, since the prior CRA examination in April 2005, is 38.58 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 no ranking is intended or implied.

| <b>Loan-to-Deposit Ratios</b>             |  |                                      |
|---|--|--------------------------------------|
| <b>Institution</b>                        | <b>Total Assets \$<br/>(000’s)<br/>(As of 6/30/10)</b> | <b>Average Loan-to-Deposit Ratio</b> |
| First National Bank of Colorado City      | 38,897   | 32.67                                |
| <b>First National Bank, Sterling City</b> | <b>81,095</b>  | <b>38.58</b>                         |
| Robert Lee State Bank                     | 47,350   | 44.53                                |
| Texas State Bank, San Angelo              | 187,629  | 52.66                                |
| The City National Bank of Colorado City   | 83,247   | 37.87                                |

*Source: Institution Reports of Condition from March 2005 to June 2010*

**Lending in Assessment Area**

FNB’s lending in its AA meets the standards for satisfactory performance. In order to assess performance for this criterion, we reviewed 39 commercial loans and 29 consumer loans originated between January 2008 and June 2010. A majority of the number of loans were made in the AA. Our analysis determined that 58.82 percent of the number and 32.88 percent of the dollar volume of loans were to borrowers within the AA. The dollar volume of commercial loans outside the AA negatively impacted the total dollar percentage of loans inside the AA. Approximately 30 percent of the dollar volume of commercial loans outside the AA was acquired in the 2008 merger with First National Bank of Bronte. In addition, one large out-of-area commercial loan comprised 30 percent of our sample. Consumer loans to borrowers inside the AA, as a dollar volume, comprised 71.97 percent of the sample. A breakdown by loan category is depicted in the following table.

| <b>Lending in the AA</b> |                 |        |         |        |       |                          |        |         |        |       |
|--------------------------|-----------------|--------|---------|--------|-------|--------------------------|--------|---------|--------|-------|
| Loan Type                | Number of Loans |        |         |        |       | Dollars of Loans (000's) |        |         |        |       |
|                          | Inside          |        | Outside |        | Total | Inside                   |        | Outside |        | Total |
|                          | #               | %      | #       | %      |       | \$                       | %      | \$      | %      |       |
| Commercial               | 20              | 51.28% | 19      | 48.72% | 100.0 | 967                      | 28.85% | 2,385   | 71.15% | 100.0 |
| Consumer                 | 20              | 68.97% | 9       | 31.03% | 100.0 | 249                      | 71.97% | 97      | 28.03% | 100.0 |
| Totals                   | 40              | 58.82% | 28      | 41.18% | 100.0 | 1,216                    | 32.88% | 2,482   | 67.12% | 100.0 |

Source: Sample of loans used for CRA performance analysis

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

FNB has an excellent penetration to borrowers of various income levels and to businesses of different sizes. To perform our analysis, we reviewed income information of 20 commercial loans and 20 consumer loans in the AA.

*Commercial Loans* – Based on the sample of commercial loans made in the AA, FNB reflects excellent distribution of loans to small businesses. Based on the 2009 Business Demographic Data, there are 568 non-farm businesses within the AA. Of this number, 54.40 percent of the businesses report revenues less than or equal to \$1 million. Of the loans in our sample, 65.00 percent of the number and 74.96 percent of the dollar volume were to businesses with annual revenues below \$1 million. The following table reflects the results of our selected sample of commercial loans originated in the AA.

| <b>Borrower Distribution of Loans to Businesses in the AA</b> |              |              |                         |       |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales)                                  | ≤\$1,000,000 | >\$1,000,000 | Unavailable/<br>Unknown | Total |
| % of AA Businesses  | 54.40%       | 2.29%        | 43.31%                  | 100%  |
| % of Bank Loans in AA by #                                    | 65.00%       | 15.00%       | 20.00%                  | 100%  |
| % of Bank Loans in AA by \$                                   | 74.96%       | 17.07%       | 7.97%                   | 100%  |

Source: Loan sample; Dunn and Bradstreet data

*Consumer Loans* – Our analysis reflects an excellent penetration of consumer loans to low-income households in the AA. Based on 2000 Census data, 22.68 percent of households in the AA are low-income. Our review determined that 40.00 percent of consumer loans were made to low-income households. Our analysis reflects an excellent penetration of consumer loans to moderate-income households in the AA. Approximately 16.83 percent of households in the AA are moderate-income, and 20.00 percent of the sampled consumer loans were to moderate-income households. The following table reflects the results of our selected sample of consumer loans originated in the AA.

| <b>Borrower Distribution of Consumer Loans in the AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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   | 22.68%             | 40.00%               | 16.83%             | 20.00%               | 17.81%             | 15.00%               | 42.68%             | 25.00%               |

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

**Geographic Distribution of Loans**

We did not perform an analysis of the geographic distribution of FNB’s loans. The bank’s AA consists of four middle-income census tracts. There are no low- or moderate-income census tracts in the bank’s AA. Therefore, a geographic distribution analysis would not be meaningful.

**Responses to Complaints**

No complaints relating to CRA performance have been received by FNB during the evaluation period, and this has a neutral impact on the bank’s performance.

**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.