



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 21, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Financial Bank, National Association
Charter Number 14598

201 Elm Street
Sweetwater, TX 79556

Office of the Comptroller of the Currency

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Suite 275
North Richland Hills, TX 76180-9127

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 Financial Bank of Sweetwater's (FFBS's) rating is supported by the following conclusions:

- FFBS's average loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance given its resources, competition, and assessment area's (AA) credit needs;
- A significant majority of the loans originated during the evaluation period are inside the AA and exceeds the standards for satisfactory performance;
- FFBS's lending to borrower's of different income levels and businesses of different sizes is reasonable when considering performance context issues;
- FFBS's geographic distribution of all primary lending products reflects an overall reasonable dispersion;
- And, there have been no consumer complaints regarding FFBS's CRA performance.

SCOPE OF EXAMINATION

FFBS qualifies as a Small Bank under the CRA regulation and is thus subject to a Lending Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities.

The evaluation period covers loans originated between January 1, 2010 and August 20, 2012. Performance regarding the Lending Test was assessed based on a review of FFBS's commercial loans (commercial and industrial loans and farm real estate loans), residential real estate mortgage products, and consumer auto loans. Our sample included 20 commercial, 86 residential and 30 auto loans originated during the evaluation period. Community Development activities were not evaluated during this examination.

DESCRIPTION OF INSTITUTION

FFBS is a community bank chartered in 1947 in Sweetwater, Nolan County, Texas. The main banking facility is located in downtown Sweetwater. The bank also operates three branches throughout Nolan, Fisher and Taylor Counties. All locations offer full-service lobby facilities. The main bank and Roby branch offer drive-through services and automated teller machines (ATMs). The bank also operates three stand-alone ATMs, all located within the AA. Hours of operation are commensurate with other area banks.

FFBS is a wholly-owned subsidiary of First Financial Bancshares, Inc. ("FFB"), a multi-bank holding company headquartered in Abilene, Texas. As of June 30, 2012, total assets for FFB

were approximately \$4.2 billion. FFB owns a total of 11 separately chartered, affiliate banks, all of which operate in Texas.

FFBS offers a full range of loan and deposit products to consumers. As of June 30, 2012, the bank’s total assets were \$192 million, total loans were \$93 million, and total deposits were \$165 million. Primary loan products consist of various types of consumer, commercial & industrial, and agricultural loans. Loans are primarily funded through deposits.

FFBS’s consumer lending activity in the community has increased in recent years as the bank has stepped up its outreach programs to the community. While the bank's strategy includes serving all sectors of the community, FFBS has specifically tried to increase its visibility to LMI families and households. Management believes it has been successful and attributes a significant portion of the loan and deposit growth to the increased visibility. Much of the growth in the loan portfolio has been organic. Consumer loans have more than doubled over the last 12 months, constituting the most significant source of growth in the loan portfolio. The increase in core deposits has been notable at 27 percent over the last 12 months. The bank's business model has not significantly changed as management and the Board continues to employ strategies to increase market share of their primary products.

The following table reflects the loan portfolio mix as of June 30, 2012:

Table 1 - Loan Portfolio Composition as of June 30, 2012		
Loan Category	\$(000)	%
Residential Real Estate	22,565	23.67%
Consumer Auto Loans	18,170	19.06%
Commercial & Industrial Loans	15,854	16.63%
Agricultural Loans	14,563	15.28%
Commercial Real Estate	13,326	13.98%
Other	10,858	11.38%
Total	\$95,336	100.00%

Source: June 30, 2012 Report of Condition

Banking competition in FFBS’s AA remains moderately aggressive and consists largely of competition from the other community banks in the area. There is modest competition from large regional and national institutions in neighboring towns. There are no financial or legal obstacles affecting FFBS’s ability to meet its community’s credit needs.

A community contact made during the evaluation disclosed that the local financial institutions are meeting the credit needs of the AA. The main credit needs identified are small business loans in support of economic development, affordable housing and consumer loans.

FFBS received an overall rating of “Satisfactory” during its previous CRA examination dated August 15, 2007.

DESCRIPTION OF ASSESSMENT AREA(S)

FFBS has one defined AA which consists of all of Nolan and Fisher counties and one census tract in Taylor County. FFBS's main office is located in Sweetwater which is the county seat of Nolan County. In addition, the bank operates three branches located in Merkel, Roby and Trent all of which are within the bank's defined AA.

The bank’s designated AA is comprised of eight census tracts: no low-, two moderate-, four middle-, and two upper-income geographies. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income areas. Specific demographic and economic data for this area are listed below.

Demographic and Economic Characteristics of FFBS's Assessment Area	
Population	
Total Population	25,607
Number of Families	10,050
Number of Households	7,109
Geographies	
Number of Census Tracts	8
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	25.0%
% Middle-Income Census Tracts	50.0%
% Upper-Income Census Tracts	25.0%
Median Family Income (MFI)	
2000 MFI for AA	\$34,817
2011 HUD-Adjusted MFI	\$49,050
Economic Indicators	
Unemployment Rate	2.39%
2000 Median Housing Value	\$35,417
% Households Below Poverty Level	18.72%

Source: 2000 Census data and HUD updated income data.

Based on 2000 U. S. Census data, the AA area has a total population of 25,607. There are 11,793 housing units in the AA, of which 61 percent are owner-occupied, 25 percent are renter-occupied and 14 percent are vacant. Approximately 25 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 21 percent and 36 percent of the population, respectively.

Based on 2011 Business Geo-demographic Data, there are 2,894 businesses in the AA, of which 68 percent reported gross annual revenue less than or equal to \$1 million and 2 percent reported gross annual revenue greater than \$1 million. Because reporting is voluntary, 30 percent or 1,495 businesses did not report revenues.

Economic conditions in FFBS's defined AA have remained relatively stable even with the national economic downturn. Population size in the AA has been slightly declining as the younger population tends to migrate to bigger, more commercialized cities such as Abilene, TX, which offer a wider range of education and employment opportunities. Nolan County, which makes up a significant portion of the AA, remains one of the wind energy generation capitols in the country. The workforce is primarily made up of the manufacturing, retail trade, education, health and social service industries. Leading employers in the area include Ludlum Measurements, Sweetwater ISD, Rolling Plains Memorial Hospital, Wal-Mart, Hood County, City of Granbury, Barnett Shale drilling companies, and USG. Local attractions in the AA include the Pioneer Museum, Municipal Auditorium and Nolan County Museum.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FFBS's performance under the Lending Test is **Satisfactory**.

In assessing FFBS's performance under the lending the test, we reviewed residential real estate loan products, commercial and farmland real estate loans and consumer loans as they comprise the bank's primary lending products. Equal weight was given to each type of lending when evaluating performance based on the criteria tested below.

Loan-to-Deposit (LTD) Ratio

FFBS's LTD ratio is reasonable and meets the standards for satisfactory performance given the bank's size, performance context, and the AA's credit needs. The LTD ratio measures the extent to which the bank has returned the deposits it has acquired to their community, in the form of loans. The average of this ratio for each quarter-end since the previous CRA examination is used to determine the performance in this area. In the 20 quarters since that exam, the bank's LTD ratio has averaged 53.92 percent. The LTD ratio has ranged from a high of 60.27 percent in the third quarter of 2009, to a low of 48.82 percent in the first quarter of 2012. The bank's average LTD exceeds the average of surrounding banks in the AA which was 49.25 percent during the evaluation period. The average LTD during the last CRA exam was 50.62 percent.

Lending in Assessment Area

The bank's lending activities meet applicable standards and reflect the bank's commitment to meeting the credit needs of its community. A majority of the loans originated during the evaluation period were made inside the AA. As depicted in the table below, 84 percent of the number and 80 percent of the dollar amount of all loans reviewed originated inside FFBS's AA.

Lending in FFBS's Defined AA								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial & Farmland RE	14	70%	\$1,651	79%	6	30%	\$439	21%
Single Family Residential	86	91%	\$3,281	65%	9	9%	\$1,739	35%
Consumer Auto	27	90%	\$513	95%	3	10%	\$25	5%
Total Reviewed	127	84%	\$5,445	80%	18	16%	\$2,203	20%

Source: Loan Sample.

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

Overall, FFBS's distribution of loans reflects a reasonable penetration amongst borrowers of different income levels and businesses of different sizes and meets the standards for satisfactory performance.

Residential Real Estate Loans

FFBS's overall distribution of residential mortgage loan products amongst borrowers of different income levels is reasonable when considering performance context issues. For our analysis, we compared the distribution of the bank's loans amongst the low-, moderate-, middle- and upper-income families to the percentages of families in these respective income levels in the AA.

FFBS's distribution of residential mortgage loan products to low-income families reflects a poor penetration. FFBS's distribution of residential loan mortgage products to low-income families is significantly less than the percentage of low-income families in the AA. Despite FFBS's efforts to increase its residential mortgage lending penetration to low-income families in the AA, demand for these products has remained low.

Programs offered by the bank include residential mortgage loan products that offer flexible down-payment and repayment terms and advertising campaigns which provide information to members of the community on the benefits of home ownership. Response has remained low because for many low-income families in the AA, renting remains the more affordable option for housing. In light of this, FFBS has participated in at least two lending projects over the evaluation period for the construction of apartment complexes targeted toward LMI families. Presently, 18.72 percent of the population in the AA lives below the poverty level.

FFBS's distribution of residential real estate loans to moderate-income families reflects satisfactory penetration, as the percentage of the number of the bank's residential real estate loan products originated reasonably penetrates the percentage of moderate-income families in the AA.

Borrower Distribution of Residential Real Estate Loans in FFBS' AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Purchase	25.18	4.17	18.05	0.00	21.09	16.67	35.68	79.16
Home Improvement	25.18	7.84	18.05	21.57	21.09	23.53	35.68	43.14
Refinance	25.18	0.00	18.05	0.00	21.09	27.27	35.68	72.73
Average	25.18	5.81%	18.05	12.72%	21.09	22.09%	35.68	56.98%

Commercial & Farm Real Estate Loans

FFBS's distribution of loans to businesses of different sizes is excellent and exceeds the standards for satisfactory performance. Small businesses are categorized as businesses with annual revenues less than \$1 million. The distribution of the loans in our sample demonstrated the bank's strong efforts to lend to small businesses as 85 percent of total loans and 75 percent of the dollar volume of loans were made to small businesses.

Borrower Distribution of Loans to Businesses in FFBS' AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.67%	1.78%	33.55%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	75%	25%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Auto Loans

FFBS's overall distribution of consumer auto loans is adequate. To conduct this analysis we compared the percentage of bank loans to the percentage of households that are classified low, moderate, middle, and upper income. FFBS had no lending penetration to low-income households, resulting in a poor dispersion. Approximately 28 percent of households are considered low-income. A significant portion of the bank's auto loans originate through an indirect auto lending program via partnerships with dealerships in the area and management's control over the credit approval process in these cases is limited. FFBS does have its own direct auto financing program and promotes this program to all individuals in the community. Due to the lack of penetration of auto loans to low-income households in the AA, we reviewed a sample of consumer auto loan denials for 2011. The reasons for denial were reviewed; all reasons were valid and did not indicate irregular or discriminatory lending practices. Credit underwriting standards were reviewed for reasonableness and are satisfactory.

The bank's distribution of consumer auto loans to moderate-income households reflects satisfactory penetration. Twenty-three percent of the number of auto loans was made to moderate-income households, whereas only 16 percent of households in the AA are considered moderate-income.

FFBS's willingness to provide credit to its AA is also evidenced by the bank's willingness to originate consumer loans as low as \$750. There is no minimum loan amount in the loan policy.

Borrower Distribution of Consumer Loans in FFB's Defined AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Families	% of Number of Loans
Consumer Loans (auto)	28.4%	0%	16.1%	23.3%	19%	26.7%	36.5%	50%

Geographic Distribution of Loans

There are no low-income geographies in the bank's AA. FFBS's geographic distribution of loans to moderate-income geographies reflects an overall reasonable dispersion.

Residential Real Estate Loans

FFBS's geographic distribution of residential real estate loans to different income tracts is reasonable and meets the standards for satisfactory performance. The distribution of loans originated follows a pattern indicative of an institution seeking to serve the credit needs of the AA.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Home Purchase	0.00	0.00	21.43	16.67	53.94	58.33	24.63	25.00
Home Improvement	0.00	0.00	21.43	23.53	53.94	50.98	24.63	25.49
Refinance	0.00	0.00	21.43	9.09	53.94	27.27	24.63	63.64
Average	0	0	21.43	16.43	53.94	45.53	24.63	38.04

Source: data reported under HMDA; U.S. Census data.

Commercial & Farm Real Estate Loans

The geographic distribution of commercial and farm loans to different income tracts is reasonable and meets the standards for satisfactory performance. The distribution of loans originated follows a pattern indicative of an institution seeking to serve the credit needs of the AA.

Table 3A - Geographic Distribution of Loans to Businesses in FFB Sweetwater 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	21.23	10%	55.45	45%	23.32	45%

Source: loan sample or data collected by the bank; U.S. Census data.

Consumer Auto Loans

The geographic distribution of consumer auto loans to different income tracts represents a poor dispersion as the number of auto loans made to moderate-income households is significantly less than the percentage of households in the AA. While this is a poor dispersion, it should be noted, again, that a significant portion of the auto loans on the bank’s books originate from an indirect lending program in conjunction with three dealerships in the area.

Geographic Distribution of Consumer Auto Loans in FFB Sweetwater AA								
Census Tract 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 Auto Loans	0.00	0.00%	38.06	20.00%	43.81	33.3%	18.13	46.7%

Source: loan sample or data collected by the bank; U.S. Census data.

Responses to Complaints

There have been no consumer complaints relating to FFBS’s CRA performance during the evaluation period.

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.