



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 15, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank In Bronte
Charter Number 12723**

**102 West Main
Bronte, TX 76933**

**Comptroller of the Currency
Assistant Deputy Comptroller - Austin
8310 Capital Of Texas Highway North Suite 250
Austin, TX 78731**

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 the 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.

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INSTITUTION'S CRA RATING

This institution is rated “**Satisfactory.**”

First National Bank in Bronte’s (FNB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA). FNB’s performance under these performance criteria meets the standard for satisfactory performance.

- FNB’s average loan-to-deposit (LTD) ratio of 54% is satisfactory when considering the nature of its community, customer base, loan demand, lending opportunities, competition, and known credit needs in the AA.
- An adequate percentage of FNB’s loans are originated within its AA.
- FNB has demonstrated a strong willingness to extend loans to individuals of varying incomes and to small businesses of different sizes.
- There have been no complaints with respect to FNB’s CRA performance.

DESCRIPTION OF INSTITUTION

FNB is a \$22 million bank with one office headquartered in Bronte, Texas, approximately 40 miles northeast of San Angelo, Texas. The bank has one automated teller machine (ATM) located in Bronte. A drive-in facility is provided at the one office. Subsequent to the previous CRA examination, FNB opened a full-service bank branch that was inside of a Winn Dixie grocery store in San Angelo. Prior to this review, Winn Dixie made the decision to close the store permanently. As a result, the bank closed the branch. Our review revealed that closing the San Angelo branch has not adversely affected FNB’s willingness or ability to extend credit to low- to moderate-income (LMI) individuals or households.

The institution’s primary focus is to promote economic development in Coke County through its lending programs. During the time that FNB had a presence in San Angelo, applications for small business and consumer lending were processed. FNB’s market niche is small business, agricultural, residential, and consumer loan products. The table on the following page reflects a detailed breakdown of FNB’s loan portfolio as of June 30, 2002.

| Loan Category | \$ (000) | % |
|-------------------------------|-----------------|-------------|
| RE Farmland | 551 | 5.13 |
| RE Residential (1-4) | 2,580 | 24.02 |
| RE Nonfarm Nonresidential | 1,025 | 9.54 |
| Agricultural Production | 878 | 8.18 |
| Commercial and Industrial | 3,490 | 32.50 |
| Consumer | 2,056 | 19.15 |
| Obligations of Municipalities | 154 | 1.43 |
| Other | 5 | 0.05 |
| Total | 10,739 | 100% |

Complete banking services are provided Monday through Friday at the one office. FNB faces competition from banks and other financial institutions in the area. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its community. At the last CRA examination in May 1998, the bank's CRA rating was "Satisfactory." No legal impediments or other factors hinder FNB's ability to provide credit.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated all of Coke County as its AA. Coke county is sparsely populated and rural/agricultural, consisting primarily of small farming and ranching. Principal communities in the AA include Bronte and Robert Lee. This area is made up of two block-numbering areas (BNAs), which surround and include the one office and has a census population of 3,424. The 1990 census data indicates that these 2 tracts are categorized as middle-income. The following table further describes the bank's AA.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 996 |
| Number of Households | 1,365 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 2 |
| % Low-Income Census Tracts/BNA | 0.00% |
| % Moderate-Income Census Tracts/BNA | 0.00% |
| % Middle-Income Census Tracts/BNA | 100.00% |
| % Upper-Income Census Tracts/BNA | 0.00% |
| <i>Median Family Income (MFI)</i> | |
| 1990 MFI for AA | \$23,451 |
| 2001 HUD-Adjusted MFI | \$35,800 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 2.45% |
| 1990 Median Housing Value | \$37,377 |
| % of Households Below Poverty Level | 18.83% |

The local economy is considered stable. Major employers in the AA include the agricultural industry, local school districts, the Coke County Juvenile Detention Center, and West Texas Utilities. In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a local city official during this examination. The contact stated that FNB is active in the community and responsive to credit needs in Coke County. This contact also stated that affordable-priced permanent homes are needed in the city of Bronte.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's LTD ratio is satisfactory, given its asset size, financial condition, and lending opportunities within its AA. The LTD ratio has averaged 54% during the 17 quarters since our last examination. To better understand the bank's performance, we conducted an LTD analysis on three other similarly situated banks. LTD ratios for these banks ranged from 47% to 60%, and the average LTD was 55% over the same period.

| Institution | Assets (As of 6/30/02) | Average LTD Ratio |
|-----------------------|---------------------------|----------------------|
| Ballinger NB | 35MM | 47.28% |
| FNB Ballinger | 45MM | 60.73% |
| Robert Lee State Bank | 44MM | 57.98% |
| <i>FNB in Bronte</i> | <i>22MM</i> | <i>54.22%</i> |

Lending in Assessment Area

An adequate number of FNB's loans originated are within the bank's AA. Using internal reports provided by management, an analysis of lending patterns within the AA was performed. These reports include loans originated and outstanding as of June 30, 2002. The following table illustrates and summarizes FNB's distribution of total loans in and out of the current AA.

| TOTAL LOANS REVIEWED | | | | | | | | |
|----------------------|--------------------|-------|----------|-------|------------------------|-------|----------|-------|
| | In Assessment Area | | | | Out Of Assessment Area | | | |
| | # | % | \$(000s) | % | # | % | \$(000s) | % |
| Total Loans | 198 | 30.7% | \$1,961 | 18.3% | 448 | 69.3% | \$8,778 | 81.7% |

In connection with the branch closing in San Angelo, prior to this CRA examination, the bank subtracted those San Angelo tracts from the AA. This significantly impacted the number and dollar amount of loans originated in the AA. Also, FNB's President has many years of experience in San Angelo, which has resulted in significant opportunities to make small business loans from the area. Taking into consideration the bank's loans that are in San Angelo, 45% of the total number of loans and 41% of the total dollar amount of loans would be in the bank's

AA. The majority of the other remaining loans are to small businesses in surrounding counties.

Given FNB’s size, its location in a sparsely populated rural community, and lack of significant loan demand in Coke County, it is not surprising that a majority of the number and dollar amount of loans were outside of the bank’s AA. Our review of FNB’s lending practices revealed no evidence of illegal discrimination. There were no instances where management arbitrarily excluded LMI individuals or families from the AA.

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

The loan portfolio reflects a good distribution of loans to individuals of various income levels and to small businesses. In order to assess FNB’s performance in this area, we obtained income information from our sample of 14 residential real estate and 20 consumer loans in the bank’s AA that originated since our prior CRA examination. We also obtained gross revenue information from our sample of business loans in the AA. Our analysis indicates that FNB lends to all applicants, regardless of income category. As indicated in the chart below, FNB has a good distribution of consumer loans among LMI borrowers in relationship to the demographics of the AA. While the bank readily offers mortgage loan products, most lending that benefits LMI individuals is centered in consumer loans. Based on information received from the community contact, there are limited housing units priced at a level LMI individuals could afford. The tables below summarize our analysis of lending activity in the AA to different income levels.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 19.7% | | 21.0% | | 22.2% | | 37.1% | |
| | % of Number | % of Amount |
| Total | 7.1% | 3.1% | 14.3% | 8.2% | 28.6% | 19.2% | 50.0% | 69.5% |

| CONSUMER | | | | | | | | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 24.6% | | 17.7% | | 19.0% | | 38.7% | |
| | % of Number | % of Amount |
| Total | 35.0% | 20.8% | 15.0% | 19.7% | 15.0% | 11.3% | 35.0% | 48.2% |

FNB originates commercial loans in a manner that is consistent with area demographics. The bank’s distribution of loans to small business with revenues less than \$1 million is reflective of FNB’s focus on providing loans that will enhance the local economy. The table on the following page reflects data from the review of 10 commercial loans originated since our prior examination.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES | | |
|---|---------------------|------------------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 94.2% | 5.8% |
| % of Bank Loans in AA # | 90.0% | 10.0% |
| % of Bank Loans in AA \$ | 92.4% | 7.6% |

Geographic Distribution of Loans

As previously mentioned, the two census tracts located within FNB’s AA are classified as middle-income areas. Therefore, an analysis of loan distribution by geographic area would not be meaningful.

Responses to Complaints

FNB has received no complaints relating to its CRA performance.

Fair Lending Review

FNB has not been subjected to a Fair Lending review. However, a review of complaint records and consumer files completed during this evaluation period provided no indication of disparate treatment.