



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Bullard
Charter Number 17710**

**210 North Houston Street
Bullard, TX 75757**

**Comptroller of the Currency
Southwestern District
1800 West Loop 281 Suite 306
Longview, TX 75604**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

First National Bank of Bullard (FNB) has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio is reasonable based on its size and complexity.
- A substantial majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Bullard is a \$36 million bank with two office locations. The main office is located at 210 North Houston Street in Bullard, Texas, with the branch office located in Frankston, Texas, at 706 Highway 155 North. The institution is retail oriented and offers a wide range of deposit and loan products. As of December 31, 2001, loans totaled \$15 million and represented 41% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	1,584	10.70
Commercial Loans	2,966	20.03
Residential Real Estate Loans	3,231	21.82
Consumer Loans	7,026	47.45
Total	14,807	100.00

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated July 3, 1997.

DESCRIPTION OF ASSESSMENT AREA

The Board and management have designated one assessment area for CRA purposes. This designation meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The assessment area includes seven census tracts (CT) and five block numbering areas (BNAs) located in four contiguous counties. The boundaries for these four counties converge between Bullard and Frankston. These twelve geographies represent the areas including and immediately surrounding the bank's two locations. Six of the census tracts (CT 19.03, 19.04, 20.07, 20.08, 20.09, 21.00), including the City of Bullard and the area north toward Tyler, are located in Smith County. The remaining census tract (CT 9514) is located in Henderson County and includes the communities of LaRue and Poyner. The remaining portion of the assessment area consists of three BNAs (BNA 9501, 9502, 9509) in Anderson County and two BNAs (BNA 9502, 9503) in Cherokee County. The remaining census tracts and BNAs from these four counties were excluded to prevent the assessment area from being too large for the bank to reasonably service. The designated assessment area includes one moderate-income area, seven middle-income areas, and four upper-income areas. Approximately 8% of the total population of the assessment area resides in the moderate-income census tract that is located in Henderson County. There are no low-income areas in the assessment area. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- and moderate-income geographies. The 2001 HUD median family income for the entire assessment area is \$43,783.

The following table provides a description of the bank's assessment area based on 1990 census data and 2001 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	19,324
Number of Households	24,638
<i>Geographies</i>	
Number of Census Tracts/BNA	12
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	8.33%
% Middle-Income Census Tracts/BNA	58.33%
% Upper-Income Census Tracts/BNA	33.33%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	28,994
19XX HUD-Adjusted MFI	43,783
<i>Economic Indicators</i>	
Unemployment Rate	5.2%
1990 Median Housing Value	59.48%
% of Households Below Poverty Level	13.42%

The bank's designated assessment area has a total population of 65,643. The distribution of families by income level, regardless of census tract location, consists of the following: low income families, 19%; moderate income families, 16%; middle income families, 22%; and, upper income families, 43%. The distribution of households by income level, regardless of CT/BNA location: low income households, 21%; moderate income households, 15%; middle

income households, 17%; and upper income households, 47%. Many area residents commute to surrounding areas such as Tyler and Jacksonville for work. Major employers within the assessment area include the local school districts and small manufacturing and industrial companies.

As part of our evaluation, we contacted a local business organization. Information regarding the credit needs of the community was obtained from a local business organization in Bullard. In addition, we utilized information obtained in a previous community contact conducted in Jacksonville. These contacts revealed that the primary credit needs in the assessment area are small business loans and residential mortgages. They further indicated that they believe the credit needs of the community are being met by existing products offered by local financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio:

The loan-to-deposit ratio of FNB Bullard is reasonable given the bank's size, financial condition, and the credit needs within the assessment area. The bank's quarterly average loan-to-deposit ratio was 70.61% since the prior CRA examination in July of 1997 with the current ratio at 43.11%. Although the current loan-to-deposit ratio trend is decreasing, the ratio is still comparable to banks of similar size and characteristics in the assessment area. This compares favorably to the 53.93% quarterly average for other banks located within the bank's designated assessment area. The following table provides a breakdown of the banks used in calculating the comparable loan-to-deposit ratio.

Institution	Assets (as of 12/31/01)	Average LTD Ratio
Arp State Bank	106,051	26.54
TNB- Jacksonville	46,679	52.93
FSB- Frankston	94,765	65.49
ETNB- Palestine	110,959	54.10
<i>FNB- Bullard</i>	<i>36,412</i>	<i>70.61</i>

Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment area. Our analysis was based on the entire residential real estate loan portfolio (90 loans), 27 consumer loans, and 23 commercial loans originated since the prior CRA examination. This analysis reflected that approximately 84% of the number of loans and 77% of the dollar amount of loans in our sample were extended within the bank's assessment area. The breakdown by loan

category is illustrated in the following table.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	75	83.33	2,211	78.02	15	16.67	623	21.98
Consumer	23	85.19	222	85.38	4	14.81	38	14.62
Commercial	20	86.96	1,227	74.09	3	13.04	429	25.91

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

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. Further, the distribution of loans within each income category approximates the income characteristics of the population within the assessment area. FNB's primary product lines are commercial, residential and consumer loans. Our sample of loans included 75 residential loans, 20 consumer loans, and 20 commercial loans, which were extended to borrowers within the assessment area and originated during the current year and the prior two years. The following tables detail the results of our analysis.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	18.84%		16.24%		22.20%		42.72%	
	% of Number	% of Amount						
	16.00%	9.45%	26.67%	16.06%	17.33%	18.00%	40.00%	56.49%

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.20%		15.40%		17.00%		46.50%	
	% of Number	% of Amount						
	50.00%	47.06%	35.00%	40.11%	10.00%	1.60%	5.00%	11.23%

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,615 businesses in the assessment area with revenues less than \$1 million. This number represents 87.37% of all businesses within the assessment area. Our sample of commercial loans inside the assessment area included 20 loans totaling \$187 thousand. The distribution of commercial loans generally approximates the income characteristics of the assessment area.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	87.37%	6.15%
% of Bank Loans in AA #	95.00%	5.00%
% of Bank Loans in AA \$	96.90%	3.00%

Geographic Distribution of Loans

The distribution of loans reflects a reasonable penetration throughout the assessment area given the bank's overall strategy, locations, and the availability of owner-occupied housing. The distribution of home purchase and consumer loans generally approximates the percentages of households and families located in the various tract categories. The following tables reflect the distribution in the assessment area by tract:

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00%		8.90%		62.80%		28.20%	
	% of Number	% of Amount						
	0.00%	0.00%	28.38%	20.52%	60.81%	65.04%	10.81%	14.45%

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00%		8.00%		60.00%		31.90%	
	% of Number	% of Amount						
	0.00%	0.00%	5.00%	1.60%	70.00%	60.96%	25.00%	37.43%

The geographic distribution of business loans is also reasonable based on the bank's locations and the demographics of each area. The bank's assessment area contains only one moderate-income census tract. Only 142 or 5% of the businesses in the assessment area are located in this moderate-income tract. Due to the limited number of lending opportunities to businesses in the one moderate income census tract, management stated that they have not received any commercial applications since the last examination from businesses in that area.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00%		5.08%		55.67%		39.24%	
	% of Number	% of Amount						
	0.00%	0.00%	0.00%	0.00%	80.00%	83.94%	20.00%	16.06%

Responses to Complaints

Management has not received any written complaints related to CRA performance since the prior CRA examination.

Fair Lending Review

An analysis of 1998 through 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC determined that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The last comprehensive fair lending examination was performed in 1997.