



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

May 24, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First Liberty National Bank
Charter Number 12850

1900 Sam Houston Avenue
Liberty, TX 77575

Office of the Comptroller of the Currency
Houston Field Office
1301 McKinney Street, Suite 1410
Houston, TX 77010

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 Lending Test is rated: Satisfactory.

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

- FLNB's loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- A substantial majority of the bank's loans originated within the designated Assessment Area (AA).
- The borrower distribution of loans reflects reasonable penetration among low- and moderate-income borrowers for consumer and home mortgage products.
- The distribution of small business loans reflects reasonable penetration to businesses of different sizes
- The geographic distribution of loans reflects excellent dispersion of loans in moderate-income census tracts in the AA for all products.
- The bank has not received any consumer complaints regarding CRA performance.

SCOPE OF EXAMINATION

Our review was focused on the primary loan products of loans to consumers. A statistically valid sample of 74 consumer loans was chosen. For the gross revenue distribution and geographic distribution of loans to businesses, we selected a statistically valid sample of 52 loans. For residential real estate loans, management collected reliable gross income and census tract location data for all loans originated in 2007, 2008, and 2009 as required by the Home Mortgage Disclosure Act. There were a total of 201 owner-occupied loans originated in the AA. The entire population of originated loans for owner-occupied residential properties was used.

The time period for the lending test covered loan originations for 2007, 2008, and 2009. This time period was used for consumer loans, business loans, and all originated, owner-occupied 1-4 family residential loans. The total population of consumer loans was 4,712 in number and \$60.7 million by dollar. For business loans, the total population was 687 business loans in number and \$34 million by dollar. Residential loans had 201 in number and \$13.2 million by dollar. As a result of the loan breakdown, more weight was given to consumer loans in the final rating.

DESCRIPTION OF INSTITUTION

As of March 31, 2010, FLNB is a \$243 million bank headquartered in Liberty, Texas that operates two full service banking offices. FLNB is wholly-owned by First Liberty National Bancshares, a bank holding company, which reported total assets of \$235 million as of December 31, 2009. The main office, located in Liberty, has a drive-through facility and an Automated Teller Machine (ATM) inside the branch. The bank also operates a full service branch in Dayton, Texas with a drive-up ATM. Additionally, the bank maintains eight withdrawals - only ATM's, located throughout the assessment area (AA).

FLNB offers a full range of banking products and services, including trust services. Insurance products are offered through the bank's wholly-owned subsidiary, FLNB Insurance Agency, Inc. The primary business focus is consumer-related lending. As of March 31, 2010, loans totaled \$101 million and deposits totaled \$204 million. Loans represent 41% of total assets. The distribution of the loan portfolio is as follows: 1-4 family residential properties (23%), commercial and commercial real estate (25%), consumer loans (41%), and all other (11%).

Tier one capital was \$28 million as of March 31, 2010. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs within its AA.

The bank was rated "Satisfactory" in the previous CRA Public Evaluation dated November 15, 2004.

Please refer to FLNB's CRA Public File for more information about this institution.

DESCRIPTION OF ASSESSMENT AREA

The AA is comprised of Liberty County, portions of Chambers, Polk, and Harris counties. The bank's AA is part of the Houston-Baytown-Sugarland Metropolitan Statistical Area (MSA). The delineation meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographic areas. The AA consists of 1 low-income (3%); 8 moderate-income (25%); 17 middle-income (53%); 5 upper-incomes (16%); and 1 non-populated (3%) census tracts (CT) based on 2000 census data. The main banking office is located in a middle-income tract.

There are 61,186 total housing units in the AA, with 44,240 of these being owner-occupied units. Of the total owner occupied units, 1% are located in low-income tracts, 23% are located in moderate-income tracts, 54% are located in middle-income tracts, and 22% are located in upper-income tracts. The 2009 updated MSA median family income for the AA was \$62,663. The total population of the AA is 157,591 with 12% living below the poverty level. The median value of a single-family residence is \$131 thousand.

The overall economic condition of the AA has declined in recent years, but has recently begun to stabilize. As of March 31, 2010, the unemployment rate for Liberty County was 10.9%, which is above the six-county average of 10.2%. Liberty is the county seat of Liberty County, Texas. The local economy is centered in education, manufacturing, construction, retail trade, and service-related jobs. The major employers include the Liberty County Independent School District, Liberty County, Wal-Mart, Texas Department of Criminal Justice and Sam's Distribution Center. There are also a significant number of attorneys and businesses related to the court system for the city the size of Liberty.

Competition in the AA is strong consisting of larger bank branches, small banks in the rural areas, insurance offices, investment firms and credit unions. FLNB is ranked second in deposit market share with 37% of the Liberty County deposit base as of June 30, 2009, ranked second behind Prosperity Bank's 38% share of the market. Other deposit competitors are Legend Bank, N. A., Wachovia Bank, N. A., Hull State Bank, and Woodforest National Bank.

COMMUNITY'S CREDIT NEEDS

One CRA-related community contact was made with a representative of a local government organization that is knowledgeable of the economic and business development environment in the community. This contact indicated that there have been a number of layoffs in the area, mostly related to the oil and gas industry. However, the area may soon see some growth, due to a large manufacturer opening a facility in Liberty to produce goods and metal pipe for oil and gas customers in the United States and Canada. Bank management has identified small business and real estate development loans as the primary credit needs within the assessment area. FLNB is active in the community and assist community groups whenever they can. They work diligently to meet the credit needs of the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable. The quarterly average LTD ratio is 44.07% since the last examination dated November 15, 2004. There are several other banks operating in the Liberty-Dayton area. Two of them were used as a comparison, because they operate in the bank's AA and were similar in size by total assets. The LTD ratio is slightly lower than both peers, which were 62.21% and 55.36%. This lower ratio is mitigated by the fact that the bank makes a high volume of consumer loans which are for smaller dollar amounts throughout their AA.

Lending in Assessment Area

A substantial majority of the bank's lending activity is in the AA, and the overall level of lending in the AA exceeds the standards for satisfactory performance. As noted in the table below, approximately 93% of the number of loans and 92% of the dollar amount of loans were originated in the AA. The bank's performance is shown in the following table:

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000)
	#	%	#	%		\$	%	\$	%	
Res RE Purchase	86	89.58	10	10.42	96	7,123	87.37	1,030	12.63	8153
Res RE Refinance	48	97.96	1	2.04	49	2,933	96.51	106	3.49	3,039
Res RE Imprv	67	93.06	5	6.94	72	1,971	96.71	67	3.29	2,038
Business	49	96.08	2	3.92	51	1,784	95.97	75	4.03	1,859
Consumer	67	90.54	7	9.46	74	471	93.59	32	6.41	503
Totals	317	92.69	25	7.31	342	14,282	91.60	1,310	8.40	15,592

Source: Data reported under HMDA, sample of loans.

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

The bank's loan originations to borrowers of different incomes and businesses of different sizes reflect a reasonable penetration in the AA.

Consumer Loans – Houston AA

The level of lending to consumers reflects reasonable penetration. The number of loans to low-income borrowers is near to the percentage of AA low-income households. The number of loans to moderate-income borrowers is lower than the percentage of moderate-income AA households. This level of performance meets the standards for satisfactory performance. The bank's performance is shown in the following table:

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	24.86	23.88	15.60	8.96	19.13	23.88	40.41	38.81

Source: Loan sample; U.S. Census data. Income was unavailable for 4.48% of borrowers

Owner Occupied Residential Real Estate

The bank’s percentage of lending to borrowers for residential real estate is reasonable. The percentage of number of loans to low-income individuals is below the percentage of low-income AA families. However, loan officers have originated some loans to low-income individuals. Originating loans for residential home loans to low-income borrowers is difficult considering the costs of homes in the AA and the poverty level of the AA (12%). The number of loans originated for moderate-income individuals for purchase and home improvement loans exceeded the percentage of moderate-income AA families. This exceeds the standard for satisfactory performance. The bank’s performance is shown in the following table:

Table 2B - Borrower Distribution of Residential Real Estate Loans in First Liberty 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
Purchase	22.42	3.49	17.83	22.09	21.96	34.88	37.79	39.53
Refinance	22.42	6.25	17.83	12.50	21.96	29.17	37.79	52.08
Home Imprv.	22.42	13.43	17.83	23.88	21.96	22.39	37.79	40.30

Source: Data reported under HMDA; U.S. Census data. The 0.01% difference in purchase loans is due to rounding.

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses of different sizes. We compared the bank’s performance to Dun & Bradstreet information as it pertained to the annual gross revenues of businesses in the AA. For businesses with annual gross revenues equal to or less than \$1 million, the number and dollar amount of loans originated is near to the number of AA businesses.

The bank’s performance is shown in the following table:

Table 2C - Borrower Distribution of Loans to Businesses in First Liberty AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	75.69	2.72	21.59	100%
% of Bank Loans by #	66.67	28.57	4.76	100%
% of Bank Loans by \$	65.72	13.83	20.44	100%

Source: Loan sample; Dun & Bradstreet data. The 0.01% difference in % of Bank Loans by \$ is due to rounding.

Geographic Distribution of Loans

The geographic distribution of loans shows reasonable dispersion. In addition, our review did not reveal any conspicuous gaps in lending in the AA.

Consumer Loans – Houston AA

The geographic distribution of loans to consumers reflects excellent dispersion in moderate-income tracts. The number of loans originated to borrowers located in moderate-income CTs significantly exceeds the percentage of AA households. This exceeds the standards for satisfactory performance. The bank’s performance is shown in the following table:

Table 3A – Geographic Distribution of Consumer Loans in Houston 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 Loans	1.97	0.00	23.05	43.28	54.12	55.22	20.86	1.49

Source: loan sample; U.S. Census data. The 0.01% difference in bank loans is due to rounding

Owner Occupied Residential Real Estate

The geographic distribution of loans to owner-occupied residential real estate is more than reasonable. The number of loans originated to borrowers located in moderate-income CTs significantly exceeds the percentage of moderate-income AA households for all home mortgage products. This exceeds the standards for satisfactory performance. Only 1 percent of the owner occupied housing units in the Houston AA are located in the low-income census tracts. The bank’s performance is shown in the following table:

Table 3B - Geographic Distribution of Residential Real Estate Loans in First Liberty 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
Purchase	1.01	0.00	23.21	38.37	53.69	55.81	22.08	5.81
Refinance	1.01	0.00	23.21	27.08	53.69	72.92	22.08	0.00
Home Imprv.	1.01	0.00	23.21	46.27	53.69	50.75	22.08	2.99

Source: Data reported under HMDA; U.S. Census data. The 0.01% difference in Purchase loans is due to rounding

Small Business Loans

The geographic distribution of loans to businesses reflects excellent dispersion. The percentage of loans originated in moderate-income CTs significantly exceeds the percentage of AA businesses. The low-income census tracts contain less than 2 percent of the AA businesses. The bank’s performance is shown in the following table:

Table 3C – Geographic Distribution of Loans to Businesses in First Liberty 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
Business Loans	1.89	0.00	20.25	34.69	50.24	59.18	27.62	6.12

Source: Loan sample; Dun & Bradstreet data. The 0.01% difference in bank loans is due to rounding

Community Development

Many of the FLNB directors and officers are involved in community development activities. The more noteworthy of these are listed below:

- Area Chamber of Commerce board members. These organizations promote economic development
- Leadership of Southeast Texas promoting economic development
- Dayton-Team City economic development program sponsored by Entergy
- Liberty County Hospital District board member serving on committee which provides medical care funding for low-and moderate income persons that qualify
- Liberty County Housing Authority which provides affordable housing

Responses to Complaints

The bank did not have any CRA related complaints 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.