



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 27, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number: 5750**

**507 North Gray Street
Killeen, Texas 76541-4871**

**Office of the Comptroller of the Currency
Southwestern District
500 North Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of the **First National Bank (FNB), Killeen, Texas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 27, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Outstanding.**”

- FNB’s lending performance has been very good given its size and financial condition. The loan-to-deposit (LTD) ratio has increased from 23 percent at the last CRA examination to 35 percent on March 31, 1997. The bank originates a very large number of small consumer loans that directly benefit LMI individuals.
- A majority of FNB’s loans are within its assessment areas.
- FNB has demonstrated a strong willingness to extend loans to individuals of varying incomes and small businesses. Especially noteworthy are efforts to extend loans to businesses that have helped create and retain jobs in the community.
- FNB originates loans in all areas of the community, including LMI areas.
- FNB has expanded services which enhance the availability of credit. These services include the voice response unit, the loan-by-phone program, and the acceptance of loan applications over the Internet.
- Management has also provided financial advice and expertise to local governments and various organizations that promote community development and affordable housing.

The following pages further describe FNB’s CRA performance.

The following table indicates the performance level of the **First National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	First National Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	Not applicable, no complaints relating to FNB's CRA performance have been received.		

DESCRIPTION OF INSTITUTION

FNB is a \$192 million bank headquartered in Killeen, Texas, approximately 50 miles north of Austin, Texas. FNB is the lead bank of a two-bank holding company (HC), First Community Bancshares, Inc. This HC owns 100 percent of FNB as well as Fort Hood National Bank (FHNB), which is located on the Fort Hood Army Base. FNB primarily focuses on consumer lending but it also offers various types of residential and commercial loan products.

The following reflects a detailed breakdown of FNB's loan portfolio as of March 31, 1997.

Loan Type	Dollar Amount (000's)	% of Total
Real Estate:		
Construction	7,448	11%
Farmland	748	1%
Residential Mortgage (1-4)	12,857	21%
Multifamily	2,866	4%
Commercial	17,319	26%
Commercial and Industrial	6,974	11%
Agricultural	300	-
Consumer	16,401	25%
Other	721	1%
Total	65,634	100%

FNB has an extensive branch network with 14 full service banking offices in the communities it serves. Eight of these branches are located in local supermarkets (i.e., HEB and Albertson's). While these branches do not have lenders present, they do offer immediate telephone connections to process loan applications through the 24 hour toll-free voice response unit and the loan-by-phone program. The other six banking offices have drive-through facilities. Extended full service banking services are provided Monday through Sunday at the supermarket branches, and Monday through Saturday at the other branches. A total of 89 automated teller machines (ATMs) are owned by FNB and FHNB and are available in the assessment areas with no transaction costs to FNB customers. FNB's customers also have access to an additional 300 ATMs throughout the state without transaction costs. The voice response unit program allows customers to obtain deposit information via telephone. FNB's Internet web site provides deposit and loan information as well as applications for loans and deposit accounts.

FNB faces strong competition from area banks, credit unions, pawn shops, finance companies, and quasi-governmental agencies such as the Army and Air Force Exchange Service. 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 communities. At the last CRA examination in May 1994, the bank's CRA rating was "Outstanding."

DESCRIPTION OF ASSESSMENT AREA

FNB has designated three separate and distinct assessment areas which encompass two Metropolitan Statistical Areas (MSAs). These areas are made up of contiguous census tracts which surround and include each banking office. FNB's assessment areas meet the requirements of the regulation and do not arbitrarily exclude LMI geographies. The combined assessment areas include 112 census tracts of which 3 are low-, 26 are moderate-, 52 are middle-, and 31 are upper-income level. These areas have a 1990 census population of 679 thousand.

According to the 1990 housing data as provided in the census, there are 287 thousand housing units in all three assessment areas of which 40 percent are owner occupied, 46 percent are renter occupied, and 14 percent are vacant. The median age of homes is twenty years, with a median value of \$61 thousand.

Killeen Assessment Area

This assessment area includes a portion of the Killeen/Temple MSA which encompasses the cities of Nolanville, Harker Heights, Killeen, Fort Hood, and Copperas Cove. This area also includes the Fort Hood Army Base, which is one of the world's largest military installations. The area consists primarily of middle-income census tracts. The local economy is currently very good with an unemployment rate of 4.8 percent. This area is heavily dependent on support from the adjoining Fort Hood military base. The base is the largest employer with 44 thousand soldiers, along with 13 thousand civilian employees, working on base. Other major employers include the Killeen Independent School District (ISD), Central Texas College, and Metroplex Hospital. Income data from the 1990 census revealed that the median family income (MFI) for this MSA was \$26 thousand. Updated income information from the Department of Housing and Urban Development (HUD) states that the 1996 estimated MFI for this area was \$36 thousand.

Conroe Assessment Area

This assessment area includes all census tracts in Montgomery County which are part of the Houston MSA. As a result of recent branch expansion into the city of Huntsville, this area was expanded to include eight census tracts in Walker County which are not part of an MSA. This assessment area consists primarily of moderate-, middle-, and upper-income census tracts. The local economy is very good with an unemployment rate of 3.9 percent for Montgomery County and 4.2 percent for the city of Conroe. Major employers in this area include the Conroe ISD, Montgomery County, and Columbia HCA Hospital. Income data from the 1990 census revealed that the MFI for this MSA was \$35 thousand. Updated statistics from HUD indicates that the area's MFI in 1996 was estimated at \$49 thousand.

Houston Assessment Area

This assessment area consists of 38 census tracts in Harris County which are part of the Houston MSA. Geographically, this area consists of the Fort Bend/Harris county line to the southwest, north and east to North Baridge Road, south along the Sam Houston Parkway to Westheimer, and east to Fondren. This assessment area consists primarily of moderate-, middle-, and upper-income census tracts. The local economy is very good with an unemployment rate of 5 percent. Major employers in this area include Continental Airlines, BMC Software, Inc., and Dow Chemical. Income data from the 1990 census revealed that the MFI for this MSA was \$36 thousand. Updated statistics from HUD indicates that the area's MFI in 1996 was \$49 thousand.

Community Contacts

In order to gather more current information on the nature of the communities and potential lending opportunities in the assessment areas, we contacted two community members during this examination. One contact was a small business owner and former representative of local city government. The other contact was a county judge. All comments on FNB's performance were good. One contact specifically mentioned FNB's ongoing efforts and willingness to make consumer, mortgage, and small business loans. The same contact mentioned a potential lending opportunity relating to the need for LMI housing in the Killeen area due to high rental rates. In an effort to address this concern, the City of Killeen recently received a \$350 thousand federal government grant to develop affordable housing that is safe, decent, and sanitary for LMI persons. Management indicated that FNB will participate in this program once the opportunity for performance becomes available.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB's LTD ratio is very good, given its asset size, financial condition, and willingness to provide special loans programs that directly benefit LMI individuals. Since the last CRA examination, the LTD ratio has steadily increased from 23 percent on March 31, 1994, to 35 percent on March 31, 1997. The average LTD ratio over the 12 quarters since the last examination was 31 percent. This ratio is not a true reflection of FNB's efforts to meet the credit needs in its assessment areas, nor does it indicate the true lending volume of this institution. FNB has a mortgage department which originates an array of conventional, VA, and FHA home mortgage loans. Almost all of these loans are sold to permanent investors shortly after origination. Had these loans remained on the bank's books, the LTD ratio would be substantially higher. During 1996, the mortgage department originated and sold 588 mortgage loans totaling \$44.7 million. Additionally, FNB originated a large number of small dollar loans through its "Pocket Money" and "Fresh Start" loan programs. The minimum loan amount starts at \$50, with reduced credit qualifications that directly benefit LMI individuals. "Pocket Money" allows a borrower to obtain credit without an established credit history. "Fresh Start" allows a borrower to pay checking account overdrafts on an installment basis. The following table reflects management's analysis of the lending activities in these two loan programs during 1996.

	<u>Pocket Money</u>	<u>Fresh Start</u>
Number of loans	966	779
Average loan amount	\$337	\$457
Average income of applicant (000's)	\$16.1	\$18.4

Another factor affecting the LTD ratio is the deposit fluctuations which result from the timing of the military payroll. The LTD ratio is higher the day before the bank receives month-end military pay. Management estimates that approximately 50 percent of these deposits leave the bank within a week after month-end. During 1996, military payroll increased the average end-of-month army deposit balance by approximately \$3.5 million.

Lending in the Assessment Areas

A majority of FNB's loans are within its assessment areas. Verified reports, provided by management for 1996, indicate that 77 percent of the number and 76 percent of the dollar amount of mortgage and home improvement loans originated were within the assessment area. In addition, 85 percent of the number and 73 percent of the dollar amount of consumer and small business loans originated were within the assessment area. This indicates that FNB is committed to its local community and takes an active role in meeting credit needs.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects an excellent distribution among individuals of various income levels and a good dispersion to businesses of different sizes. FNB consistently lends to all applicants, regardless of their income category. Most lending to LMI individuals is centered in small consumer loans, particularly to military personnel stationed at the Fort Hood Army Base. The dispersion of mortgage and home improvement loans to LMI individuals is in line with the demographic characteristics within the assessment areas.

The table below summarizes management’s analysis of lending activity by different incomes in 1996.

Loans to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographics	2.21%		24.18%		47.82%		25.79%		100.00%	
	#	%	#	%	#	%	#	%	#	%
Mortgage/Home Improvement Loan Distribution	30	4%	158	23%	279	40%	228	33%	695	100%
Consumer Loan Distribution	1,214	48%	760	30%	327	13%	213	9%	2,514	100%
Combined Loan Distribution	1,244	39%	918	28%	606	19%	441	14%	3,209	100%

The majority of commercial loans have been to “small businesses” with revenues less than \$1 million. In 1996, the bank originated 537 commercial loans totaling \$44.9 million. For the five months in 1997, the bank originated 239 commercial loans totaling \$22.2 million. The moderate number of small business loans in relation to consumer loans is understandable, given the communities FNB services have a greater demand for consumer and mortgage loans. This is particularly evident in the Killeen assessment area. Commercial loan demand in this assessment area is low, primarily because the military discourages its personnel from starting small businesses in order to remain mobile.

The chart below reflects management's analysis of 195 commercial real estate (RE) and other commercial loans originated in 1996.

Loans to Small Businesses								
Revenue Ranges	< \$100M		\$100M -- \$500M		\$500M -- \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%
Commercial RE	16	20%	23	29%	9	12%	30	39%
Other Commercial	78	67%	22	19%	5	4%	12	10%
Total	94	48%	45	23%	14	7%	42	22%

Geographic Distribution of Loans

Loan distribution reflects a very good geographic dispersion throughout the assessment areas. Of the 112 census tracts within the assessment areas, 3 tracts, or 3 percent, are considered low-income and 26 tracts, or 23 percent, are moderate-income. Management's analysis indicates that 9 percent of loans are made in low-income tracts and 39 percent are made in moderate-income tracts. This analysis shows that FNB's penetration in LMI areas clearly exceeds the standards for a satisfactory performance rating.

The chart below depicts FNB's geographic distribution of loans by census tracts for 1996.

Geographic Distribution of Loans By Census Tracts										
	Low Income Areas		Moderate Income Areas		Middle Income Areas		Upper Income Areas		Total	
	#	%	#	%	#	%	#	%	#	%
Number of Census Tracts	3		26		52		31		112	
Bank's Loan Distribution	302	9%	1,127	34%	1,350	40%	558	17%	3,337	100%

Response to Complaints

No complaints relating to CRA performance have been received by FNB.

Investment and Services

In addition to strong lending performance, FNB has identified additional ways to serve the community.

Management has provided loan advisory services and financial expertise to the cities of Killeen and Conroe as well as the Central Texas Economic Development Corporation and the Conroe Industrial Development Board. These organizations benefit numerous Texas communities with affordable housing programs and help create and retain jobs through small business financing.

Complete banking services as well as extended banking hours are available at all branch locations. The branches are reasonably accessible to the communities they serve. FNB provides several noteworthy services which enhance the availability of credit. These services include immediate telephone connections to the voice response unit and the loan-by-phone program. Beginning in 1997, FNB's customers can use their Gold Key ATM cards to make an unlimited number of ATM transactions without being charged an ATM fee for "on us" transactions. FNB offers several low cost deposit accounts to meet the customers' daily banking needs. Examples include lower cost deposit products for senior citizens and retired military personnel. In the Killeen assessment area, all checking accounts may be opened with a minimum one cent deposit.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of this compliance examination. FNB is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.