



## **INTERMEDIATE SMALL BANK**

---

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

---

### **PUBLIC DISCLOSURE**

**September 17, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Financial Bank, National Association  
Charter Number 23147**

**2201 West South Loop  
Stephenville, TX 76401**

**Comptroller of the Currency  
Fort Worth  
9003 Airport Freeway Suite 275  
North Richland Hills, TX 75201**

**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.

The Community Development Test is rated: Satisfactory.

First Financial Bank, National Association (FFB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- The bank's loan-to-deposit ratio is reasonable and averaged 76 percent during the evaluation period.
- A majority of FFB's loans were originated within the bank's assessment area (AA).
- FFB's distribution of loans to businesses with gross revenues of less than \$1 million is reasonable. The bank's overall distribution of home mortgage products to low- and moderate-income families is reasonable when considering performance context issues.
- FFB's community development performance demonstrates adequate responsiveness to the community development needs of its AA.

## **SCOPE OF EXAMINATION**

FFB qualifies as an Intermediate Small Bank under the CRA regulation and is thus, subject to a Lending Test and Community Development (CD) Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area (AA) through its lending activities. The community development test evaluates a bank's CD lending, qualified investments, and CD services.

The evaluation under the Lending Test covers loans originated over a three year period between January 1, 2004 and December 31, 2006. Performance under the lending test was assessed based on a review of FFB's residential real estate, commercial, and commercial real estate loans. CD activities were evaluated over the period June 3, 2002 through September 17, 2007.

## **DESCRIPTION OF INSTITUTION**

FFB is a community bank headquartered in Stephenville, Texas, approximately 70 miles southwest of Fort Worth, Texas. FFB is a full-service bank offering traditional products and services. In addition to its main office at 2201 W. South Loop, in Stephenville, FFB operates four full-service branches and one deposit-only motor bank throughout Erath, Hood, and Somervell counties. FFB operates 8 ATMs. All bank locations are in middle- or upper-income census tracts. There are no legal, financial or other factors impeding the bank's ability to help meet the credit and community development needs in its AA.

FFB is a wholly-owned subsidiary of First Financial Bankshares, Inc. (FFIN), a multi-bank holding company headquartered in Abilene, Texas. FFIN owns nine other banks operating in Central, West, and North Texas. Consolidated holding company assets totaled \$2.9 billion as of June 30, 2007.

FFB was created from the merger of Stephenville Bank and Trust Company, Stephenville, Texas (SBT) into Liberty National Bank, Granbury, Texas (LNB). The merger was effective October 15, 2004, with FFB retaining the national charter previously held by LNB. Prior to the merger, both banks were subsidiaries of FFIN.

FFB reported total assets of \$319 million and total liabilities of \$281 million as of June 30, 2007. Total loans of \$185 million represent 58% of total assets. The following chart details the composition of FFB's loan portfolio, as of June 30, 2007.

<b>Loan Portfolio Composition as of June 30, 2007</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Real Estate	84,593	45.7
Commercial & Industrial	38,170	20.6
Residential Real Estate	34,833	18.8
Consumer & Other	18,608	10.0
Farm & Agricultural Real Estate	9,099	4.9
<b>Total</b>	<b>\$185,303</b>	<b>100.0</b>

*Source: June 30, 2007 Report of Condition*

LNB received an overall rating of "Satisfactory" during its previous CRA examination dated June 2, 2002, utilizing Small Bank CRA Procedures. The previous CRA examination for SBT utilized Large Bank CRA Procedures, was performed by the Federal Deposit Insurance Corporation (FDIC), resulted in an overall rating of "Satisfactory", and was dated May 12, 2003.

## **DESCRIPTION OF ASSESSMENT AREA**

FFB has designated Erath, Hood, and Somervell counties as its assessment area (AA). The AA comprises 14 census tracts: zero low-income, zero moderate-income, seven middle-income, and seven upper-income census tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for this area are listed below.

<b>Demographic and Economic Characteristics of Assessment Area</b>	
<b>Population</b>	
Total Population	80,910
Number of Families	22,107
Number of Households	31,139
<b>Geographies</b>	
Number of Census Tracts	14
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	0.0%
% Middle-Income Census Tracts	50.0%
% Upper-Income Census Tracts	50.0%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$36,380
2005 HUD-Adjusted MFI	\$43,100
<b>Economic Indicators</b>	
Unemployment Rate	3.54%
2000 Median Housing Value	\$81,052
% Households Below Poverty Level	12.45%

*Source: 2000 Census data and HUD updated income data.*

Based on 2000 U. S. Census data, the AA area has a total population of 80,910. There are 36,277 housing units in the AA, of which 63% are owner-occupied, 23% are renter-occupied and 14% are vacant. Approximately 22% of the families in the AA are considered low-income. Moderate-income families approximate 18% of the population, and middle- and upper-income families comprise 20% and 40% of the population, respectively.

Based on 2006 business demographic data, there are 7,968 businesses in the AA. Of these businesses, 60% reported gross annual revenue less than \$1 million and 3% reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 37% of the businesses did not report revenues. Approximately 63% of businesses have less than ten employees. Twenty-nine percent of the businesses did not report employee size. The largest employer in Stephenville is Tarleton State University, employing approximately 900 employees. Other large employers include St. Gobain Adhesives, Stephenville ISD, and FMC Technologies. The largest employer in Granbury is Granbury ISD, employing approximately 1,230 employees. Other large employers include Wal-Mart, Lowe's, and Hood County.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending Test**

The bank's performance under the Lending Test is rated "**Satisfactory**".

Small business lending is the bank's primary business line, and therefore more weight was given to small business lending than to home mortgage lending when evaluating lending performance

under the performance criteria detailed below.

**Loan-to-Deposit Ratio**

FFB's loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance. The bank's loan-to-deposit ratio averaged 76 percent over the 21 quarters since the last CRA examination. During the evaluation period, the loan-to-deposit ratio ranged from a low of 63 percent as of March 31, 2006 to high of 96 percent as of June 30, 2006. The bank's loan-to-deposit ratio at June 30, 2007 was 67 percent. FFB identified several similarly situated competitors. The quarterly average loan-to-deposit ratio for the comparable banks, over the same time period, is detailed below.

<b>Loan-To-Deposit Ratios</b>		
<b>Institution</b>	<b>Total Assets \$000's (As of 6/30/07)</b>	<b>Average Loan – to-Deposit Ratio</b>
Texas Bank, Stephenville, Texas	\$218,001	84.64%
<b><i>First Financial Bank, N.A., Stephenville, Texas</i></b>	<b>\$319,838</b>	<b>76.58%</b>
Community Bank, Granbury, Texas	\$386,748	72.94%
Town and Country Bank, Stephenville, Texas	\$125,430	50.99%
The First National Bank of Granbury, Texas	\$315,335	43.89%

Source: Institution Reports of Condition from June 2002 to June 2007

FFB sells a significant portion of its home mortgage and student loan originations to secondary market investors. For the years 2004 through 2006, the bank originated 586 home mortgage loans totaling over \$77 million, which were sold to secondary market investors. Student loans originated in 2004 through 2006 sold to the secondary market totaled over \$16 million. These loans, if retained, would contribute to a higher loan-to-deposit ratio.

**Lending in Assessment Area**

FFB's lending in its AA reflects satisfactory performance. A majority of the number and dollar amount of the home mortgage and small business loans were originated inside the bank's AA. As depicted in the table below, 85% of the number and 78% of the dollar amount of loans were originated in FFB's AA.

<b>Table 1 - Lending in Assessment Area</b>						
Loan Type	Number of Loans				Dollars of Loans (000's)	
	Inside		Outside		Total	Total
	#	%	#	%		
	\$	%	\$	%		

Residential R/E	1,065	81.7%	238	18.3%	1,303	\$131,950	78.6%	\$35,819	21.4%	\$167,769
Commercial & Commercial R/E	1,152	87.1%	170	12.9%	1,322	\$119,512	77.7%	\$34,245	22.3%	\$153,756
<b>Totals</b>	<b>2,217</b>	<b>84.5%</b>	<b>408</b>	<b>15.5%</b>	<b>2,625</b>	<b>\$251,462</b>	<b>78.2%</b>	<b>\$70,064</b>	<b>21.8%</b>	<b>\$321,525</b>

Source: Data collected by bank.

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

The distribution of loans made to borrowers of different income levels and business of different sizes reflects reasonable penetration and meets the standard for satisfactory performance. To perform our analysis we reviewed residential mortgage loan data and commercial and commercial real estate loan data collected by the bank. Each product type was weighted equally in this evaluation. More detail on lending performance of each of the products is discussed below.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential R/E	22.2%	4.8%	17.6%	7.5%	20.1%	16.5%	40.1%	60.1%

Source: Data collected by bank; U.S. Census data.

FFB's overall distribution of home mortgage loan products is satisfactory, particularly when considering that low-income families have a difficult time qualifying for conventional home mortgage products. Twelve percent of the population in the AA lives below the poverty level.

Initially, we conclude FFB's distribution of home mortgage loan products to low- and moderate-income families reflects poor penetration. The percentages of the number of bank loans made to these families are significantly less than the percentages of low- and moderate-income families in the AA. However, community contacts performed during this examination and MLS activity in the area indicate a significant lack of quality affordable housing. Compounding the problem is the purchase and rehabilitation of quality affordable housing by local investors, and subsequent rentals of these properties to the college student population. Performance in this area may not improve until the inventory of quality affordable housing increases.

FFB currently offers two in-house affordable residential mortgage lending programs. These programs target applicants who make less than 80 percent of the median income for the AA. The programs have flexible down payment and closing costs. Since the prior CRA examination, the bank has had very little activity with management citing competitor pricing as the predominant reason.

FFB's willingness to provide credit to its AA is evidenced, in part, by the number of small consumer loans originated during our evaluation period. Management reports that there is no minimum loan amount in the loan policy. For the years 2004, 2005 and 2006 the bank made 431

loans with originating balances of \$1,000 or less, with the lowest loan amount being \$226. Also, FFB presently has approximately 560 automobile loans in its loan portfolio totaling \$3.3 million to borrowers whose income level is considered low- and moderate-income.

<b>Table 2A - Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	60.2%	3.0%	36.8%	100%
% of Bank Loans in AA by #	71.6%	15.3%	13.1%	100%
% of Bank Loans in AA by \$	56.0%	27.6%	16.4%	100%

*Source: Data collected by bank; Dunn and Bradstreet data.*

<b>Table 2B - Borrower Distribution of Loans to Businesses by Loan Size in AA</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans (000's)	Percent of Dollar Volume
\$0 - \$100,000	686	83.2%	\$19,643	29.4%
\$100,001 - \$250,000	75	9.1%	\$12,866	19.2%
\$250,001 - \$500,000	41	5.0%	\$15,119	22.6%
\$500,001 - \$1,000,000	19	2.3%	\$13,224	19.8%
Over \$1,000,000	4	0.5%	\$6,059	9.1%

*Source: Data collected by bank.*

FFB's borrower distribution of small business loans is satisfactory. Loans to businesses with revenues of \$1 million or less represented 72% of business loans, exceeding the 60% of area businesses that reported revenues of less than \$1 million.

A review of the bank's geographical distribution of loans was not performed. There are no low- or moderate-income geographies within the 2000 U.S. Census data.

### **Responses to Complaints**

There have been no consumer complaints relating to the bank's Community Reinvestment Act performance during the evaluation period.

## **Community Development Test**

### **Community Development Loans**

FFB did not originate any community development loans.

### **Qualified Investments**

Qualifying investments include investments, deposits, membership shares, or grants that have as their primary purpose CD. CD investment activity is adequate. During the evaluation period, FFB made qualified investments totaling \$417 thousand. FFB's most significant qualified investment was a \$384 thousand investment in a CRA qualified investment fund. The fund, similar to a mutual fund, invests solely in community development securities and allows investors (banks or other financial institutions) to earmark their investment in CRA-qualifying projects within the bank's AA. FFB's investment in the fund is directed to loan pools comprising mortgage loans made to low- and moderate-income borrowers in Texas and a broader geographic area, and revenue bonds that will provide financial support for ongoing unemployment benefits, including the various programs of the Texas Workforce Commission, and medical facilities that serve as the hub for healthcare services. Additionally, FFB made 2 donations or grants totaling \$33 thousand to various charitable organizations. These organizations provide services targeted to the low- and moderate-income population.

### **Community Development Services**

The level of CD services provided reflects adequate responsiveness. FFB is active in the community and provides services that benefit low- and moderate-income individuals and families.

FFB's AA does not contain any low- or moderate-income census tracts. Management is able to reasonably ensure that its banking services, including low-cost checking accounts, are available to low- and moderate-income individuals, with branches and ATMs located throughout the AA. The main bank is located in Stephenville, as well as one full service branch with an ATM, a motor bank facility with an ATM, and an ATM at Tarleton State University. There are two full-service branches in Granbury with ATMs. The branch in Glen Rose also is full-service and has an ATM. Business hours and services are convenient and are accessible to all segments of the AA.

FFB's staff has been active during the evaluation period volunteering at various organizations throughout the communities it serves. The staff volunteers time as well as serving in advisory capacities on various community development committees and non-profit organizations that benefit low- to moderate-income families. During the evaluation period, bank staff initiated a financial literacy seminar targeted to the low- to moderate-income individuals throughout the AA. This seminar was taught by bank employees and strived to inform the participants on the fundamentals of borrowing money from a bank. The seminar was offered in Stephenville, Granbury, and Glen Rose, and was presented in both English and Spanish.

Many of FFB's products are not targeted to low- or moderate-income families but it does offer an affordable home purchase program. This program is designed to help borrowers who would not qualify for traditional mortgages to purchase homes. During the evaluation period, no mortgage loans were originated using this program. Bank management feels that this is due to many borrowers obtaining more favorable financing through FFIN's mortgage company, as well as a



shortage of quality affordable housing in the AA. This shortage is exacerbated by many affordable homes being purchased by investors, who then rehabilitate the homes and rent them to college students at Tarleton State University in Stephenville. Community contacts interviewed in Stephenville, Granbury, and Glen Rose during this examination confirmed these facts, citing 1-4 family home mortgage lending and small business lending as the most pressing credit needs in the AA.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices.