



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**June 26, 2006**

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

**First National Bank of Hereford  
Charter Number 23692**

**301 West Third Street  
Hereford, TX 79045**

**Comptroller of the Currency  
Lubbock (West Texas)  
5225 South Loop 289 Suite 108  
Lubbock, TX 79424**

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

- The bank's loan-to-deposit ratio is reasonable and averaged 78.8 percent during the evaluation period.
- A majority of FNBH's loans are within the bank's assessment area (AA). Based on a sample of loans, 82 percent of the number of loans and 71 percent of the dollar volume of loans were to borrowers within the assessment area.
- FNBH has a reasonable penetration of loans to businesses of different sizes, and individuals of different income (including low- and moderate-income) levels.
- The geographic distribution of loans reflects reasonable allocation throughout the assessment area.
- There have been no complaints with respect to FNBH's CRA performance.

## **DESCRIPTION OF INSTITUTION**

FNBH is an intrastate bank located in Hereford, Texas, which is approximately 50 miles southwest of Amarillo, Texas. The bank is a wholly owned subsidiary of La Plata Delaware Bancshares. Total assets of the bank as of March 31, 2006 were \$77.5 million. FNBH opened a branch in Friona, Texas, during the first quarter of 2002. Hereford is situated in Deaf Smith County, approximately 50 miles southwest of Amarillo, Texas. Friona is located approximately 25 miles southwest of Hereford in Palmer County.

The bank offers a full range of commercial and consumer banking products and related financial services. The bank provides access to banking services through its website at [www.fnbhereford.com](http://www.fnbhereford.com). Internet banking services are free and include account balance inquiry and bill pay. The bank also offers telephone banking, various deposit products, and automated teller machine (ATM) services.

As of March 31, 2006, FNBH had total assets of approximately \$78 million, with 64 percent in the loan portfolio. The bank is primarily an agricultural lender, with some volume in residential real estate lending. The following chart details a breakdown of FNBH's loan portfolio as of March 31, 2006.

<b>Loan Portfolio Composition as of March 31, 2006</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Agricultural	23,112	46.50
Commercial & Industrial	10,182	20.48
Residential RE	7,903	15.90
Commercial RE	3,982	8.01
Consumer	2,881	5.80
Agricultural RE	1,647	3.31
<b>Total</b>	<b>49,707</b>	<b>100.00</b>

Source: March 31, 2006 Report of Condition

FNBH has two full-service locations with associated drive-up facilities. The main lobby is located in Hereford, TX and the branch is located in Friona, TX. Bank lobby services provided at the main facility and the branch are Monday through Friday. Based on the financial condition, the local economy, product offerings, competition, and prior performance, FNBH has the ability to meet the various credit needs in its community. The bank was rated "Satisfactory" at the last examination on November 30, 2001.

FNBH's business strategy is to provide outstanding banking services to customers in its assessment area while increasing the long-term value of the owners' investment. No legal impediments or other factors hinder FNBH's ability to provide credit in its AA. FNBH's Tier 1 Capital level is \$6.51 million representing 8.42 percent of adjusted average assets as of March 31, 2006. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks. Refer to the bank's CRA Public File for more information.

## **DESCRIPTION OF DEAF SMITH/PARMER COUNTIES**

FNBH has designated Deaf Smith and Parmer Counties as its Assessment Area (AA). The AA is comprised of seven contiguous census tracts (CTs) and meets the requirements of the regulation. No low- or moderate-income areas are arbitrarily excluded. Cities within the AA include Hereford, Friona, Lazbuddie, Farwell, and Bovina. Demographic information about the AA is listed below.

<b>Demographic and Economic Characteristics of Deaf Smith/Parmer County AA</b>	
<b>Population</b>	
Number of Families	7,459
Number of Households	9,462
<b>Geographies</b>	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0.0
% Moderate-Income Census Tracts/BNA	14.29
% Middle-Income Census Tracts/BNA	85.71
% Upper-Income Census Tracts/BNA	0.00
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	36,380
2006 HUD-Adjusted MFI	42,000
<b>Economic Indicators</b>	
Unemployment Rate	4.4
2006 Median Housing Value	47,880
% of Households Below Poverty Level	19.0

Source: 2000 Census data and HUD updated income data.

Based on 2000 Census data, the AA has a total population of 28,577. There are 10,646 housing units in the AA, of which 62 percent are owner-occupied, 28 percent are renter-occupied, and 11 percent are vacant. There are no families in the AA that are considered low-income. Moderate-income families approximate 12 percent of the population, while middle- and upper-income families comprise the remaining 88 percent.

Deaf Smith and Parmer Counties are highly dependent on agriculture, especially beef cattle production. There are numerous cattle feed yards in both counties. One of the largest employers in the Deaf Smith County is Hereford ByProducts. The facility produces pet foods and treats that are marketed throughout the area. The largest employer in Friona is Cargill Meat Solutions.

Competition is high in the AA. In Hereford, there is a local state bank, one credit union, a branch from a national bank, the local Federal Land Bank Office, and branches of a statewide savings association. In Friona, there is one state bank, a national bank, credit union, and an Agricultural credit union.

Two community contacts were performed, one located in Hereford, TX and the other located in Friona, TX. Community contacts were conducted for the purpose of determining a community profile, identifying opportunities for participations by local financial institutions, and determining the performance of local financial institutions. The representative from a local community organization in Hereford stated that there is an affordable housing project currently under construction. According to the contact, there is a need for more rental properties as businesses continue to move into the city. There are two 100-million gallon ethanol plants moving into the city in the near future, along with 10 new dairies. The contact stated the new plants and dairies will create approximately 250 new jobs. The contact believes that there is no displacement of low or moderate-income individuals in any neighborhoods at this time.

We also conducted a community contact with a local government agency in Friona, TX. The contact stated that the city has a major need for duplexes and homes, though some apartments are also needed to attract younger adults. However, builders are busy constructing in the Amarillo area and the city is having a difficult time obtaining builders to construct homes and apartments in Friona. Five new dairies have come into the community in the past few years, hiring about 15 employees per dairy. These dairies have led to approximately a 5% increase in the city's population in the past 5 years, increasing the need for more housing. The contact foresees the major credit-related need in the near future is financing for housing as home-builders become available in the area. Both contacts indicated that the local financial institutions are cooperative and diligent in trying to meet the community's credit needs.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

The evaluation period for this CRA examination is from December 2003 through June 2006, except for the loan-to-deposit ratio. The loan-to-deposit ratio was calculated from December 2001 through March 2006. FNBH's performance is satisfactory, and management has been successful in meeting the credit needs of the bank's assessment area, including lending to different sizes and individuals of different income (including low- and moderate-income) levels.

Agricultural loans were identified as a primary loan product for the bank on the dollar volume of lending originated during this period. Consumer purpose loans were also identified as a primary

loan type based on the number originated during this evaluation period. We evaluated the bank's performance for lending to borrowers of different income levels using this sample.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNBH is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 78.3 percent since the prior CRA examination in November 12, 2001. During the evaluation period, FNBH's loan-to-deposit ratio ranged from a low of 67.7 percent to a high of 103.6 percent. The average loan-to-deposit ratio of similarly situated banks within or contingent to the assessment area for the same period was 56.9 percent. The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 03/31/06)	Average Loan-to-Deposit Ratio
Friona State Bank, N.A.	83,530	95.20%
<b>First National Bank of Hereford</b>	<b>77,501</b>	<b>78.8%</b>
Hereford State Bank	100,426	65.8%
Security State Bank (Farwell)	89,400	9.64%

Source: Institution Reports of Condition from December 2001 to March 2006

### Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess performance for this criterion, we reviewed 25 farm and 25 consumer loans originated between January 2004 and June 2006. Our analysis determined that 82.0 percent of the number of loans and 71.0 percent of the dollar amount of loans in the sample were extended within the bank's AA. The breakdown by loan category is illustrated in the following table.

Lending in the Assessment Area								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Farm	20	80.0%	3,065	69.3%	5	20.0%	1,385	30.7%
Consumer	21	84.0%	312	92.8%	4	16.0%	24	7.2%
Total Reviewed	41	82.0%	3,378	71.0%	9	18.0%	1,382	29.0%

Source: Sample of loans used for CRA performance analysis

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

FNBH's loan portfolio reflects a reasonable distribution among individuals of various income levels (including low- and moderate-income) and farms of different sizes within their AA. To perform our analysis, we reviewed income information of 20 farm and 21 consumer-purpose loans in the Deaf Smith/Parmer Counties AA.

Farm Loans – FNBH's lending performance to small farms is reasonable. Of the loans in the small farm purpose sample, 85.0 percent were to farms reporting annual revenues below \$1 million. This level is slightly below the assessment area information and reflects a reasonable penetration of small loans to farms. The following chart reflects the results of our selected sample of farm loans

originated in the AA.

<b>Borrower Distribution of Loans to Farms in Deaf Smith/Parmer Counties Assessment Area</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	87.4%	7.5%	5.1%	100%
% of Bank Loans in AA by #	85.0%	15.0%	0.0%	100%
% of Bank Loans in AA by \$	61.5%	38.5%	0.0%	100%

Source: Loan sample; Dunn and Bradstreet data.

**Consumer Loans** - Our analysis reflects an excellent penetration of consumer loans to low- and moderate-income households in the Deaf Smith/Parmer Counties AA. Based on 2000 Census Information, 39.9 percent of households in the AA are low- and moderate income. Our review determined that 76.2 percent of consumer loans were made to low- and moderate-income households. The distribution of consumer loans exceeds the income characteristics of the AA for low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in this AA.

<b>Borrower Distribution of Consumer Loans in Assessment Area</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	24.0%		15.9%		21.4%		38.7%
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	33.3%	19.2%	42.9%	55.1%	19.1%	24.8%	4.8%	0.9%

Source: Loan sample; 2000 U.S. Census data

### Geographic Distribution of Loans

The geographic distribution of loans within the census tracts is reasonable given the bank's business strategy and locations. Our analysis included 20 agricultural and 21 consumer loans originated during 2004 through June 2006. The assessment area has one moderate-income census tract; there is no low-income census tract. The moderate-income census tract is located in the city of Hereford and accessible to several financial institutions.

**Farm Loans** – The performance in the moderate-income census tract is comparable to the demographic composition of the AA. The following chart reflects the results of our selected sample of small-farm loans originated in the AA.

<b>Borrower Distribution of Loans to Farms in Assessment Area</b>									
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER		
% of AA Farms	0.0%		5.1%		94.9%		0.0%		
LOANS	% of Number	% of Amount							
Total	0.0%	0.0%	5.0%	0.6%	95.0%	99.4%	0.0%	0.0%	

Source: Loan sample, Dunn and Bradstreet data

*Consumer Loans* - Our analysis indicates that the geographic distribution FNBH's lending in the moderate-income census tract for consumer loans does not compare to the demographic composition of the AA. However, the bank tracks census tract information on all consumer loans that it originates. Management is able to perform a geographic analysis of its consumer loan portfolio to determine borrower distribution within all census tracts, including the one moderate census tract in the AA. The bank's internal geographic analysis of consumer loans conducted June 2006 reflects that 7.7 percent of outstanding consumer loans located within the AA are situated in the moderate-income census tract. This reflects a reasonable geographic distribution of consumer loans within the AA. The following chart reflects the results of our selected sample of consumer loans originated in the AA.

<b>Borrower Distribution of Consumer Loans in Assessment Area</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.0%		11.9%		88.1%		0.0%	
LOANS	% of Number	% of Amount						
Total	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%

Source: Loan sample; 2000 U.S. Census data.

### **Responses to Complaints**

There were no complaints regarding the bank's CRA performance. FNBH has systems in place to ensure that complaints are addressed in a timely manner.

### **Fair Lending Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.