



SMALL BANK

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

PUBLIC DISCLOSURE

May 30, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Quanah
Charter Number 12307**

**120 West Third Street
Quanah, TX 79252**

**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 performance of The First National Bank in Quanah reflects satisfactory responsiveness to the community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio of 38% meets the standards for satisfactory performance given the bank's size, financial condition, local competition, and assessment area credit needs.
- A majority of the bank's loan activity is within the defined assessment area.
- The distribution of loans demonstrates satisfactory penetration among individuals of different income levels.

DESCRIPTION OF INSTITUTION

The First National Bank in Quanah (FNB) is a community bank located in Quanah, Texas, which is located approximately 80 miles northwest of Wichita Falls, Texas. The bank operates from one location in downtown Quanah. There is one ATM located at the bank in its drive-thru facility and another ATM located at a grocery store in Quanah on US Highway 287. No deposits are accepted at either ATM.

FNB is a full-service bank offering a wide variety of loan and deposit products. As of March 31, 2006, FNB has total assets of \$30.8 million, loans of \$9.2 million, and deposits of \$27.9 million. The following tables present the bank's loan and deposit information as of March 31, 2006.

Loan Portfolio

Loan Type	Dollar Volume (000's)	Percentage of Loan Portfolio
Real Estate:		
Farmland	\$1,379	15%
1-4 Family	\$2,918	32%
Other	\$376	4%
Agricultural	\$1,214	13%
Commercial	\$976	10%
Consumer/Other	\$2,359	26%
Total	\$9,222	100%

Deposit Portfolio

Deposit Type	Dollar Volume (000's)	Percentage of Total Deposits
Demand Deposits	\$6,542	23%
Savings/NOW	\$4,498	16%
MMDA	\$2,449	9%
CD's less than \$100,000	\$6,500	23%
CD's greater than \$100,000	\$6,029	22%
IRA's	\$1,837	7%
Total	\$27,855	100%

FNB is owned by Quanah Financial Corporation, a one-bank holding company based in Quanah, Texas. There are presently no affiliate relationships. The size of the bank somewhat limits the size of loans the bank can make.

There have been no changes in the bank's corporate structure and none are currently planned. Primary competition comes from two other national banks located in Quanah. Secondary competition is presented by financial institutions in Childress, Vernon, and Wichita Falls, Texas.

The most recent CRA examination was performed as of January 22, 2002. The bank received a Satisfactory rating at that examination. There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment area.

DESCRIPTION OF HARDEMAN COUNTY

FNB has defined its assessment area (AA) as Hardeman County. The AA is legal and meets the requirements of the regulation. Approximately 4,724 persons live within Hardeman County and Quanah is the county seat. The county is not in a Metropolitan Statistical Area (MSA). There is only one census tract in the county and it is middle-income. There are no low- or moderate-income census tracts in the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF HARDEMAN COUNTY	
<i>Population</i>	
Number of Families	1,343
Number of Households	1,960
<i>Median Family Income (MFI)</i>	
2005 MFI for Hardeman County	\$36,380
2006 HUD-Adjusted MFI	\$42,000
<i>Economic Indicators</i>	
Unemployment Rate	4.10%
2001 Median Housing Value	\$31,000
% of Households Below Poverty Level	17.00%

Based on updated Housing and Urban Development (HUD)-2006 Census information, the median family income for Hardeman County is \$42,000. The median housing value is \$31,000

with the median age of housing stock at 52 years. Within the AA, approximately 17% of the

families are below the poverty level.

The primary credit needs of the community continue to be related to the agriculture industry. Related credit needs include home purchase or home improvement, automobile, and other consumer loans. The economy of the area is not well diversified, but the agriculture and petroleum industries are major contributors. These industries have been stagnant for several years, and the agriculture industry is still suffering from one of the worst periods of drought on record. However, cattle and petroleum prices are currently very strong and have rebounded over the past couple of years. Unemployment levels in the area have remained steady at 4%. Major employers in the county are Georgia Pacific, school districts, hospitals, and city and county governments.

We considered information from one community contact performed in the previous 4 months. She considered the primary credit needs of community to be home financing and small business loans. According to the contact, the local financial institutions are fulfilling the immediate credit needs of the community as well as meeting the needs of low- and moderate-income families.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity from the last examination dated January 22, 2002.

Loan-to-Deposit Ratio

Institution	Location	Average Loan/Deposit Ratio
First National Bank	Chillicothe, Texas	63%
Texas Republic Bank, NA	Quanah, Texas	60%
<i>First National Bank</i>	<i>Quanah, Texas</i>	<i>38%</i>

FNB's loan-to-deposit ratio (LTD) meets the standards for satisfactory performance. The bank's average quarterly LTD since the prior examination is 38%, which demonstrates a positive trend since our last examination. The average ratio for the other two banks in the assessment area is 62%. One of the competing financial institutions opened a branch location in the Dallas metroplex within the last 3 years and improved their LTD ratio.

Lending in Assessment Area

FNB's lending in the assessment area meets the standards for satisfactory performance. Our conclusions are based on a sample of loans we reviewed during the examination. We reviewed 20 1-4 family mortgage loans and 20 consumer vehicle loans. Of the 40 loans in this sample, 32, or 80%, were made within Hardeman County. The bank's internal reports shows 80% of the number and 75% of the dollar amount of all loans were made in the assessment area.

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

FNB's lending to borrowers of different income levels is satisfactory. The distribution of loans in our sample reflects reasonable penetration among individuals of different income levels. Forty-four percent of the individuals in the bank's assessment area are low- and moderate-income families. We reviewed a sample of 20 1-4 family mortgage loans and a sample of 20 consumer vehicle loans to reach our conclusion.

Loans to Borrowers of Different Income Levels 1-4 Family Mortgage Sample								
Assessment Area Data	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
Family Data	309	23%	283	21%	237	18%	614	38%
Sample Loans	2	10%	5	25%	6	30%	7	35%

Loans to Borrowers of Different Income Levels Consumer Vehicle Sample								
Assessment Area Data	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
Family Data	309	23%	283	21%	237	18%	614	38%
Sample Loans	9	45%	2	10%	5	25%	4	20%

While the 1-4 family mortgage distribution for low-income families was below demographics, the consumer vehicle distribution represents excellent penetration. In addition, the 1-4 family mortgage penetration for moderate-income families is above demographics. The difference in penetration on the mortgage loans is reasonable based on the ability of low- and moderate-income borrowers to better meet the equity requirements in smaller vehicle loans than the down payment requirements in larger mortgage loans. FNB's requirement for a mortgage loan down payment is 10%. In addition, the bank has denied very few mortgage applications since the previous examination. Low- and moderate-income families looking to purchase a residence in Quanah also have an option to rent lower cost subsidized housing.

Geographic Distribution of Loans

A geographic distribution analysis was not performed. There are no low- or moderate-income census tracts within the bank's defined assessment area of Hardeman County.

Responses to Complaints

FNB has not received any complaints pertaining to CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

An analysis of 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 decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.