



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**February 8, 2011**

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

The First National Bank of Bells/Savoy  
Charter Number 7524

615 East Bells Boulevard  
Bells, TX 75414-0000

Office of the Comptroller of the Currency  
225 E. John Carpenter Freeway, Suite 500  
Irving, TX 75062-2326

**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 following factors support The First National Bank of Bells/Savoy's rating.

- The average loan-to-deposit (LTD) ratio was 54% and is reasonable given the LTD ratios of other similarly situated banks, as well as the demographic and other economic factors within the bank's assessment areas.
- A majority of home mortgage and other consumer loans in the sample (59%) originated inside the bank's assessment areas.
- Penetration among borrowers of different income levels is consistent with each assessment area's demographic comparators.
- The geographic distribution of loans reflects a reasonable dispersion through the assessment areas.

## **SCOPE OF EXAMINATION**

We reviewed the Community Reinvestment Act (CRA) activities of The First National Bank of Bells/Savoy (FNB) using the Small Bank examination procedures. The Small Bank procedures include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities.

The lending test for FNB assessed lending performance from June 20, 2005, through February 7, 2011. In order to assess lending performance, we selected and reviewed samples of the two primary loan products. The primary loan products were (1) loans to purchase, refinance, or improve one- to four-family residential real estate; and (2) other consumer installment and single pay loans. We selected samples for each product type in each of the bank's two assessment areas. The samples cover the entire period since the last CRA examination. The review of qualified investments is for all qualified investments since the last CRA examination.

As stated above, FNB's primary loan products are home mortgage loans and other loans to consumers. Home mortgage loans (including loans to purchase, refinance, or improve one- to four-family dwellings) constituted almost 37% of loans (by dollar volume) as of December 31, 2010. Consumer loans comprised just 6.3% of loans (by outstanding dollar volume) at the end of 2010. However, at the time of our evaluation, these 183 consumer loans represented 43% of all loan accounts by number of loans. Consumer lending was also identified by a community contact as a credit/service need of the community.

## DESCRIPTION OF INSTITUTION

FNB is a nationally-chartered community bank headquartered in Bells, Texas. As of December 31, 2010, FNB held total assets of \$45.3 million and Tier 1 Capital of \$6.48 million. The bank is a wholly-owned subsidiary of First Bells Bancshares, Inc., a Texas one-bank holding company. FNB serves the Texas cities of Bells, Savoy, Bonham, Ector, and portions of Denison and Whitewright. No significant changes occurred to FNB’s corporate structure, including merger or acquisition activities, since the last CRA examination.

FNB’s main competition is from branches of large national banks and small national and state-chartered community banks located in neighboring communities. As of June 30, 2010, fifty-five (55) branches of FDIC-insured state- and federally-chartered financial institutions were located within Grayson and Fannin counties. According to the FDIC Deposit Market Share Report, FNB held 1.77% of deposits in the two-county market.

There were no legal, financial, or other factors impeding the bank’s ability to meet the credit needs of its communities (AA’s). FNB received a “Satisfactory” rating in its previous CRA public evaluation dated June 20, 2005.

FNB offers typical range of deposits and loan products and services. Loan products offered include consumer, residential, and commercial loans. Based on conversations with management and the December 31, 2010 Call Report data, the primary lending focus is consumer installment loans, 1-4 family residential real estate loans, and loans to businesses. As of December 31, 2010, FNB held loan balances (net of the allowance for loan and lease losses) of \$17.5 million. The ratio of net loans to total assets was 38.5%.

<b>Loan Portfolio Summary by Loan Product December 31, 2010</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Home Loans	36.6%
Business Loans	39.9%
Farm Loans	7.8%
Consumer Loans	6.3%
Other Loans	9.6%

Source: Call Report Data, December 31, 2010

## DESCRIPTION OF ASSESSMENT AREA(S)

FNB has two assessment areas located in northeast Texas. The assessment areas are described below.

### Grayson County Assessment Area

The Grayson County AA is comprised of two census tracts in Grayson County. The Grayson County AA is within the Sherman-Denison Metropolitan Statistical Area (MSA), a component of the Dallas-Fort Worth Combined Statistical Area. This AA meets all the regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. HUD-adjusted median family income (as of 2010) for this AA was \$57,600. No low- or moderate-income households are included in the geography of this AA. All of the households within the AA are considered middle- or upper-income. Middle- and upper-income households represented 19.7% and 43.9% of the area’s population, respectively. Approximately 11% of households are below the poverty level. Below is a summary of certain demographic information for this AA.

Demographic Information for the Grayson County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	2	N/A	N/A	100%	N/A
Population by Geography	7,433	N/A	N/A	100%	N/A
Owner-Occupied Housing by Geography	2,282	N/A	N/A	100%	N/A
Businesses by Geography	471	N/A	N/A	100%	0%
Farms by Geography	85	N/A	N/A	100%	N/A
Family Distribution by Income Level	2,147	19.14%	17.00%	23.15%	40.71%
Household Distribution by Income Level	2,798	21.44%	14.90%	19.73%	43.92%
Census Median Family Income (MFI)		\$46,539	Median Housing Value		\$72,047
HUD-Adjusted MFI: 2010		\$57,600	Families Below the Poverty Level		11.12%
HUD- Adjusted MFI: 2009		\$57,900	Unemployment Rate		2.57%
HUD- Adjusted MFI: 2008		\$55,900			
HUD- Adjusted MFI: 2007		\$52,700			
HUD- Adjusted MFI: 2006		\$53,100			
HUD- Adjusted MFI: 2005		\$52,000			

Source: 2000 U.S. Census Data and 2010 U.S. Census Data

### Fannin County Assessment Area

The Fannin County AA is comprised of three entire census tracts. This AA is **not** part of a MSA. This AA does not arbitrarily exclude any low- or moderate-income areas. The 2010 HUD-adjusted median family income for this AA was \$46,500, and about 16% of households were below the poverty level. About 46.5% of households are considered upper-income and 35% are low to moderate income households. A summary of certain demographic information for this AA follows.

Demographic Information for the Fannin County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	3	N/A	N/A	66.67%	33.33%
Population by Geography	15,528	N/A	N/A	81.87%	18.13%
Owner-Occupied Housing by Geography	3,466	N/A	N/A	76.08%	23.92%
Businesses by Geography	1,125	N/A	N/A	87.64%	12.36%
Farms by Geography	56	N/A	N/A	71.43%	28.57%
Family Distribution by Income Level	3,544	16.08%	17.21%	20.46%	46.25%
Household Distribution by Income Level	5,064	21.81%	13.41%	18.34%	46.45%
Census Median Family Income (MFI)		\$40,126	Median Housing Value		\$54,344
HUD-Adjusted MFI: 2010		\$46,500	Families Below the Poverty Level		16.25%
HUD- Adjusted MFI: 2009		\$45,600	Unemployment Rate		2.74%
HUD- Adjusted MFI: 2008		\$43,600			
HUD- Adjusted MFI: 2007		\$41,800			
HUD- Adjusted MFI: 2006		\$43,100			
HUD – Adjusted MFI 2005		\$42,000			

Source: 2000 U.S. Census Data and 2010 U.S. Census Data

The current local economy for both AAs can be characterized as satisfactory and expanding. Economic activity in the areas is relatively diverse, with agriculture, services, and small manufacturing companies being the primary economic activities. Manufacturers in both AAs have halted layoffs and raised output through increased productivity. Historic average unemployment rates for the area are low to moderate, but trending up, and average employee wages are increasing. The Bells I.S.D. is the biggest employer in the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's CRA performance is satisfactory. We sampled loans from each of the two assessment areas to measure the bank's performance under the Community Reinvestment Act. FNB reports data related to mortgage lending as required under the Home Mortgage Disclosure Act (HMDA). We used HMDA data in our performance evaluation. As of December 31, 2010, FNB's loan portfolio consisted principally of loans to businesses and home mortgage loans, representing 40% and 36.6% of total loans, respectively. For each of the two assessment areas, we sampled loans from the following product types: (1) one- to four-family residential real estate loans and (2) non-real estate secured consumer-purpose loans.

## LENDING TEST

The lending test is rated satisfactory. The following factors support this satisfactory rating:

1. Reasonable loan-to-deposit ratio.
2. A majority of loans is originated inside the assessment areas.
3. Distribution among borrowers of different incomes is reasonable.

### Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AAs credit needs. The bank's net loan-to-deposit ratio averaged 53.9% over the 23 quarters since the last CRA examination. The average LTD ratio declined from 60% at the last performance evaluation and ranged from a quarterly low of 45% to a quarterly high of 63% during the assessment period. FNB's LTD ratio is consistent with similarly situated institutions. We compared FNB's LTD to three other institutions in close geographic proximity. The average LTD ratios of comparisons ranged from 53.65% to 77.21%.

The following table indicates the LTD ratio of FNB Bells and three other similarly situated financial institutions.

	Avg. Loan-to-Deposit Ratio	Avg. Assets (\$000's) December 31, 2010
<b>FNB Bells</b>	<b>53.90%</b>	<b>44,400</b>
FNB Tom Bean	53.65%	43,024
FNB Trenton	77.21%	145,953
Fannin Bank	64.66%	61,904

Source: Call Report Data

### Lending in Assessment Area

Based on the sample of loans we reviewed, FNB originates a majority of consumer loans inside its assessment areas by number and by dollar volume. FNB originates a majority of mortgage loans, *by number of loans*, inside its assessment areas, but originates a majority of mortgage loans *by dollar volume* outside its assessment areas. To determine the level of lending within FNB's assessment areas, we randomly sampled twenty consumer loans. Mortgage loan information was obtained from the HMDA report. We reviewed each borrower's address. We then determined whether the borrower lived inside or outside of the assessment area using the Federal Financial Institution Examinations Council's geographical coding database. The bank originated 59% of all loans by number and 47% of all loans by dollar volume within its assessment areas.

The following table illustrates lending inside and outside of the assessment areas.

<b>Table 1 – Lending in Fannin, TX &amp; Grayson, TX Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Mortgage Loans	59	59	41	41	100	3,302	47	3,762	53	7,064
Consumer Loans	12	60	8	40	20	142.5	58	103.8	42	246.2
Totals	71	59	49	41	120	3,444.5	47	3,865.8	53	7,310.2

Source: Loan Sample and Data reported under the Home Mortgage Disclosure Act (HMDA)

### Lending to Borrowers of Different Incomes

FNB’s borrower distribution represents a reasonable penetration of lending to borrowers of different incomes. For each assessment area, we sampled loans to determine whether FNB, during the evaluation period, extended loans to borrowers of different income levels. In the following paragraphs, lending performance related to borrower distribution is detailed for each assessment area.

#### Performance in the Fannin County AA

The bank’s performance in lending to low- to moderate-income borrowers in the Fannin County assessment area is satisfactory. Consumer loans extended to moderate-income borrowers represented 30% of our sample and compared favorably to the demographic comparator (17%). Loans to low-income borrowers comprised 10% of our sample and was slightly less than the demographic comparator.

#### *Consumer Installment Loans*

The following table shows the distribution of consumer installment and consumer single-payment loans among borrowers of different income levels for the evaluation period as compared to the percent of families in each income category.

<b>Table 2B - Borrower Distribution of Consumer Loans in Fannin, TX AA</b>								
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	16.08%	10%	17.21%	30%	20.46%	25%	46.25%	35%

Source: Loan Sample and 2010 U.S. Census Data

*Home Mortgage Loans*

FNB’s home mortgage lending represents a reasonable penetration among borrowers of different incomes within this assessment area. The following table represents the distribution of one- to four-family residential real estate loans within the Fannin County AA. The table itemizes this distribution by mortgage product type. The population of borrowers for each individual product type (purchase, refinance, home improvement) is relatively small. We combined all home mortgage product types into one category to improve the statistical significance of our findings and to more accurately assess the lending performance of the bank.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Fannin, TX AA</b>								
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
Home Purchase	16.08	8.33	17.21	8.33	20.46	8.33	46.25	66.67
Home Improvement	16.08	0	17.21	66.67	20.46	33.33	46.25	0
Refinance	16.08	22.22	17.21	22.22	20.46	22.22	46.25	33.33

Source: HMDA Data and 2010 U.S. Census Data

Performance in the Grayson County AA

Lending performance in the Grayson County AA is satisfactory. Penetration among borrowers of different incomes is reasonable. FNB extended consumer loans to low- and moderate-income borrowers, representing 25% and 45% of our sample, respectively. This penetration among borrowers of different income levels exceeds the low- and moderate-income demographic comparators (21.4% and 14.9%, respectively).

*Consumer Installment Loans*

The following table shows the distribution of consumer installment and consumer single-payment loans among borrowers of different income levels for the evaluation period as compared to the percent of families in each income category.

<b>Table 2B - Borrower Distribution of Consumer Loans in Grayson, TX AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Consumer Lns	% 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
	21.44	25	14.90	45	19.73	15	43.92	15

Source: Loan Sample and 2010 U.S. Census Data

*Home Mortgage Loans*

Home mortgage lending to borrowers of different incomes within the Grayson County AA was also outstanding. FNB extended loans to low- and moderate- income individuals that represented 25% and 31% of loans by number, respectively. This lending volume compares favorably to the low- and moderate-income demographic comparators (17% and 19%, respectively).

The following table illustrates total mortgage lending in the Grayson County AA to borrowers of different incomes.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Grayson, TX AA</b>								
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
Home Purchase	19.14	0	17.00	0	23.13	61.54	40.71	38.46
Home Improvement	19.14	0	17.00	33.33	23.13	50.00	40.71	16.67
Refinance	19.14	25.00	17.00	31.25	23.13	18.75	40.71	25.00

Source: HMDA Data and 2010 U.S. Census Data

**Geographic Distribution of Loans**

Performance in the Fannin County AA

A meaningful analysis of the geographic distribution of loans in the Fannin County AA could not be performed since there are no low- or moderate-income census tracts. The AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income areas.

Performance in the Grayson County AA

A meaningful analysis of the geographic distribution of loans in the Grayson County AA could not be performed since there are no low- or moderate-income census tracts. The AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income areas.

**Responses to Complaints**

FNB has not received any CRA complaints during the evaluation period.

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

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