

PUBLIC DISCLOSURE

November 8, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First-Nichols National Bank
Charter Number 12187
100 South Sunset Strip
Kenedy, Texas 78119**

Supervisory Office:

**Office of the Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Blvd, Suite 402
San Antonio, Texas 78216-4160**

<p>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.</p>

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 neighborhoods, consistent with 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 **First-Nichols National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 8, 1999**. 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 “Satisfactory”.

First-Nichols National Bank is responsive to the community's credit needs, including low- and moderate-income individuals and areas, as well as small businesses and small agricultural operations. This is evidenced by the following:

- The bank's loan-to-deposit ratio meets the standards for satisfactory performance, averaging 38.28% during the thirteen quarters since the prior CRA Performance Evaluation. This compares favorably to the other financial institutions in the bank's assessment area (AA).
- A majority of the bank's loans are made within its AA, which meets the standards for satisfactory performance. Approximately 79% of the total number and 82% of the dollar volume of our sample of loans originated subsequent to the prior CRA Performance Evaluation are within the AA.
- The distribution of loans to borrowers reflects a satisfactory penetration among individuals of different income levels, including low- and moderate-income families, and to businesses and farms of different sizes. The distribution generally reflects the income characteristics of the AA.
- The geographic distribution of our sample of loans reflects reasonable dispersion throughout the AA.
- There have been no consumer complaints filed either at this bank or our Office concerning the bank's CRA performance.

DESCRIPTION OF INSTITUTION

First-Nichols National Bank (FNNB) is a \$37 million institution that opened in 1906 in the city of Kenedy, Texas. Kenedy is located in Karnes County and is approximately 60 miles south of San Antonio, Texas. FNNB is an independently owned bank that operates one main office with attached drive-thru facilities and one off-premises Automated Teller Machine, both located in Kenedy. FNNB received a "Satisfactory" rating during its prior CRA examination, dated September 26, 1996. There are no legal, financial, or other factors that impede the bank's ability to meet the credit needs of its AA. The bank is a subsidiary of Nichols Bancshares, Inc., a one-bank holding company with total assets equaling \$38 million at December 31, 1998.

The bank's primary focus is business, agricultural, real estate, and consumer lending. The bank also provides a wide array of deposit products. Competition in the AA comes from two community banks and a branch of a regional bank.

The total of loans outstanding is \$11 million and represents about 30% of total assets on September 30, 1999. The composition of the loan portfolio is depicted below:

Loan Portfolio Composition as of September 30, 1999		
Loan Type	Dollar Volume (000's)	% of Loan Portfolio
Commercial	3,148	28%
Agricultural & Farm Land	2,229	20%
Commercial Real Estate	2,195	20%
1 - 4 Family Residential	1,378	12%
Consumer	1,369	12%
Other	897	8%
Totals	11,216	100%

DESCRIPTION OF FNNB'S ASSESSMENT AREA

FNNB designates all of Karnes County as its AA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The 1990 census counted 12,455 persons in the AA. Then, 33% of the households had income below the poverty level and the average cost of housing was \$29,172.

The county is divided into four Block Numbering Areas (BNAs). Three, or 75%, of the BNA's are characterized as moderate-income and one, or 25%, is characterized as middle-income. The AA does not contain any BNA's that are characterized as low- or upper-income. According to the United States Department of Housing and Urban Development (HUD), the 1999 statewide Non-Metropolitan Statistical Area Median Family Income for Texas is \$33,900. The percentage of families in the AA, by income level, is as follows: 35% low-income, 17% moderate-income, 14% middle-income, and 34% upper-income.

Kenedy is the largest city in this predominantly rural county. Principal industries for the AA include: ranching, farming, correctional facilities, education, medical, and retail. Major employers include: Texas Department of Criminal Justice, Kenedy I.S.D., Otto Kaiser Memorial Hospital, Wal-Mart, Aqualon (guar processing), HEB grocery store, and the Karnes County Livestock Exchange. The general economy is weak; however, it shows signs of improvement.

Two community contacts were made during this Performance Evaluation. Both contacts related that all area banks, including FNNB, were active within the community and provided needed community services. The one contact, an individual representing an entity knowledgeable about housing needs, related that there was a need for affordable housing in the AA. The other contact, two individuals representing an entity knowledgeable about business needs, related that there was a need for business development and easier access to small business loans.

SAMPLING INFORMATION

Examiners used loan samples to assist in evaluating three of the five performance criteria. The sample consisted of loans that originated between September 27, 1996, and November 8, 1999. The bank's loan portfolio is diversified among commercial, real estate, agricultural, and consumer loan products. Examiners evaluated these types of loans against the performance criteria. Eighty-one (81) loans, totaling \$1.7 million, were sampled and consisted of 21 commercial, 20 real estate, 20 farm, and 20 consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNNB's loan-to-deposit ratio meets the standards for satisfactory performance, averaging 38.28% during the thirteen quarters since the prior CRA Performance Evaluation. This compares favorably to the other financial institutions in the AA. The average loan-to-deposit ratio for the two other community banks was 35% and 34% for the same period.

Lending in the Assessment Area

FNNB meets the standards for satisfactory performance for this criterion. A majority of loans has been extended within the AA. A review of the 81 loans in the sample, indicated that a majority of both the number and dollar volume were extended within the AA. The table below reflects the distribution by type:

Loans in the Assessment Area				
Loan Type	Number	Percent	Amount (000's)	Percent
Residential	19	95%	591	99%
Consumer	17	85%	58	79%
Small Farms	17	85%	190	80%
Small Business	11	52%	550	71%
Totals	64	79%	1,389	82%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

FNNB meets the standards for satisfactory performance under this criterion by having a reasonable distribution of loans to individuals with different income levels and businesses and farms of different sizes. FNNB's primary product lines are commercial, farm/ranch, commercial real estate, 1-4 family residential, and consumer loans. We concentrated on the number of loans because it is reasonable to expect that families with smaller incomes are likely to borrow smaller dollar amounts than the more affluent families. The distribution generally reflects the income characteristics of the AA. The bank generally does not charge fees on their 1-4 family residential loans, making the cost to borrow more affordable. The bank also offers secured and unsecured home improvement loans. The level of residential lending to low-income borrowers is low primarily because most low-income borrowers are generally not able to afford the monthly payments on a home or the down payment if they are able to afford the monthly payments. Also, as noted earlier, the poverty rate is rather high. A comparison of our sample to the AA's demographic characteristics is detailed in the table below:

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
Area Demographic Characteristics	35%		17%		14%		34%		100%	
Count	1,147		567		467		1,103		3,284	
By Number:	#	%	#	%	#	%	#	%	#	%
Loan Type										
Consumer	11	55%	3	15%	3	15%	3	15%	20	100%
Residential	2	10%	4	20%	3	15%	11	55%	20	100%
Totals	13	33%	7	17%	6	15%	14	35%	40	100%
By Dollar:	\$	%	\$	%	\$	%	\$	%	\$	%
Loan Type										
Consumer	22	30%	22	30%	6	8%	23	32%	73	100%
Residential	29	5%	60	10%	78	13%	430	72%	597	100%
Totals	51	8%	82	12%	84	12%	453	68%	670	100%

Note: Dollar amounts are stated in thousands of dollars.

The following table reflects a good distribution of loans to small (total revenues less than or equal to \$1 million) businesses and small farms. Eighty-eight percent (88%) of our sample of loan originations, by number, were to businesses and farms with annual revenues of less than \$500 thousand. This compares favorably with the demographics which show that 69% of the businesses in the county are small businesses and 95% of the farms are small farms. Again, we concentrated on the number of loans versus the dollar amount of loans because smaller businesses and smaller farms will typically borrow smaller dollar amounts than larger ones.

Loans to Businesses and Farms of Different Sizes										
Revenue	<\$100		\$100-\$250		\$250-\$500		\$500-\$1,000		>\$1,000	
By Number:	#	%	#	%	#	%	#	%	#	%
Business	12	57%	3	14%	1	5%	1	5%	4	19%
Farm	18	90%	2	10%	0	0%	0	0%	0	0%
Totals	30	74%	5	12%	1	2%	1	2%	4	10%
By Dollar:	\$	%	\$	%	\$	%	\$	%	\$	%
Business	209	27%	64	8%	120	15%	28	4%	356	46%
Farm	146	45%	176	55%	0	0%	0	0%	0	0%
Totals	355	32%	240	22%	120	11%	28	3%	356	32%

Note: Dollar amounts are stated in thousands of dollars.

Geographic Distribution of Loans

FNNB meets the standards for satisfactory performance for this criterion. The geographic distribution of loans represents a reasonable dispersion throughout the bank's AA. Our sample of loan originations reflects that 98% of the number of loans were made in the AA's three moderate-income tracts. The sample reflected that only a small percentage of loans were made in the one middle-income tract. The middle income tract is principally the Falls City area which is a significant distance from FNNB and has adequate banking services locally. The following table illustrates the distribution of sampled loans:

Geographic Distribution of Loans										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Area Demographic Characteristics	0%		75%		25%		0%		100%	
Count	0		3		1		0			
Loan Types	#	%	#	%	#	%	#	%	#	%
Residential	NA		19	100%	0	0%	NA		19	100
Consumer	NA		17	100%	0	0%	NA		17	100
Business	NA		11	100%	0	0%	NA		11	100
Farm	NA		16	94%	1	6%	NA		17	100
Totals	NA		63	98%	1	2%	NA		64	100

Response to Complaints

No complaints concerning FNNB's CRA performance have been received during this evaluation period.

Record of Compliance with Anti-discrimination Laws

No violations of the substantive provisions of anti-discrimination laws and regulations were identified. Our sample consisted of 25 consumer loan applications not secured by cash collateral. There was no evidence of discrimination or disparate treatment.

Other Matters

This document does not purport to describe all the information that may be pertinent to the bank's activities in, and service to, its community. The reader is encouraged to contact First-Nichols National Bank for more information and/or to review its CRA Public File. The bank's address is listed on the front of this document. The main telephone number is (830) 583-9811.