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SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 14, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Chillicothe
Charter Number 12513

200 Avenue H
Chillicothe, TX 79225

Office of the Comptroller of the Currency

Fort Worth Field Office
9003 Airport Freeway Suite 275
North Richland Hills, TX. 76180-9127

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 Chillicothe's (FNB) lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- FNB's loan-to-deposit ratio is reasonable given its resources, local credit needs, and local competition.
- A significant majority of loans and other lending-related activities are within the bank's assessment area.
- The distribution of loans reflects satisfactory lending activity to individuals of different income levels. The distribution of loans to businesses of different sizes reflects strong distribution to small business.

SCOPE OF EXAMINATION

Our review focused on FNB's three primary product lines: loans for 1-4 single family residences, consumer auto loans and general commercial lending. FNB has two other primary product lines; agriculture real estate and commercial real estate that were not sampled. These portfolios contain fewer loans at higher amounts and there were insufficient numbers of loans to draw reasonable samples. Our samples included 20 loans from each of the remaining primary portfolios. For the ***Lending to Borrowers of Different Incomes, Lending to Businesses of Different Sizes*** we omitted loans that were made outside of the assessment area and replaced them with loans inside the assessment area. There were no low- or moderate-income geographies in the assessment area and a ***Geographic Distribution of Loans*** analysis would not be meaningful. The loans included in the sample originated between January 2006 and December 2010, and were selected at random.

DESCRIPTION OF THE FIRST NATIONAL BANK OF CHILLICOTHE

FNB is a community bank located in Chillicothe, Texas, which is located approximately 60 miles northwest of Wichita Falls, Texas. The bank operates from two locations. The main bank is located on U.S. Highway 287 in downtown Chillicothe. The branch is located in downtown Quanah, Texas, which is approximately 15 miles northwest of Chillicothe, also on U.S. Highway 287. FNB has an Automated Teller Machine at the branch facility in Quanah, and at a local convenience store in Chillicothe. The Quanah facility offers a drive-up service for customer convenience. FNB offers internet banking limited to intra-account transactions only.

FNB is a full-service bank offering a wide variety of loan and deposit products. As of December 31, 2010, FNB has total assets of \$44.3 million, total loans of \$23.8 million, and total deposits of \$39.4 million. The following table presents the loan information as of December 31, 2010.

Loan Portfolio Composition		
As of December 31, 2010		
Loan Category	\$ (000)	%
Agriculture Real Estate	5,286	22.2
1-4 Single Family Residence	4,389	18.4
General Consumer	4,269	17.9
Commercial Real Estate	3,371	14.2
General Commercial	3,286	13.8
Government Related	2,045	8.6
Other	1,166	4.9
Total	23,812	100%
Total Loans as a % of Total Assets	54%	

FNB is owned by Northern Bancshares, Inc., which is a one-bank holding company. An affiliate relationship exists through common ownership with Western Bancshares, Inc., which owns Western Bank. FNB's size somewhat limits the size of loans it can make. However, through participation agreements with other banks, FNB is able to handle larger lines for customers in the assessment area.

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 posed from financial institutions in the surrounding counties.

The most recent CRA examination was performed as of January 17, 2006 and resulted in a satisfactory rating. 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 defines its assessment area as Hardeman County. The assessment area is legal and meets the requirements of the regulation. Approximately 4,724 persons live within Hardeman County. The county is not in a Metropolitan Statistical Area. Chillicothe and Quanah are the two largest communities within the county. There is only one census tract in Hardeman County, which is designated middle-income.

Demographic and Economic Characteristics of Hardeman County *	
Population	
Total Population	4,724
Number of Families	1,343
Number of Households	1,960
Geographies	
Number of Census Tracts/BNA	1
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
Median Family Income (MFI)	
2000 Weighted Average for Median Family Income	\$36,380
2000 Census Bureau Estimated Median Household Income	\$43,100
Economic Indicators	
Unemployment Rate	1.97%
2000 Median Housing Value	\$31,000
% of Households Below Poverty Level	16.63%

Source: 2000 US Census, updated through 2009

The primary credit needs of the community include: financing for home purchase or home improvement, automobile and other consumer loans and small business loans. The economy of the area is not well-diversified and is dependent primarily on the agriculture and oil and gas industries. These industries show signs of improvement with stable to improving livestock and oil and gas prices. Unemployment has improved to just under 2%. Major employers in the county are Georgia Pacific in Quanah, school districts, hospitals, and city and county governments.

We considered information from two community contacts. According to the contacts, the local financial institutions are fulfilling the immediate credit needs of the communities served, and FNB plays an active role ensuring that the needs of low- and moderate-income individuals are met. FNB places a strong emphasis on establishing customer relationships and ensuring a high level of service.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity since the previous CRA examination dated January 17, 2006. We used loan, borrower income, and assessment area data provided by the bank and tested it for accuracy. We selected samples from the 1-4 single family, consumer auto and general commercial portfolios in order to evaluate the bank's lending performance within the assessment area (refer to the **SCOPE OF EXAMINATION** section for details). For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** we replaced loans originated outside of the assessment area with loans originated inside the assessment area.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. The average of such ratios for each quarter-end since the last CRA examination was used to determine performance in this area. The average LTD ratio for FNB since the last CRA examination was 69.2%. The assessment area and surrounding counties contain nine other institutions with which to compare FNB. The average LTD ratios, for the same period, of these institutions ranged from 29.1% to 97.1%. FNB's LTD ratio is reasonable and reflects satisfactory efforts to meet the credit needs of the communities served.

Lending in Assessment Area

FNB's lending within the assessment area exceeds the standards for satisfactory performance.

This section quantifies what proportion of the bank's lending activity was within its assessment area. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own assessment area, would be considered less than satisfactory. However, a significant majority of FNB's lending efforts are concentrated within the assessment area.

To assess the FNB's performance, we used the samples described above. Based on our sample results, a significant majority of loans were originated within the bank's assessment area. The following tables reflect the results of our assessment of FNB's efforts to lend within its assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
General Commercial	18	90%	\$672	87%	2	10%	\$99	13%
1-4 Single Family Residence	19	95%	\$559	81%	1	5%	\$130	19%
Consumer Auto	14	70%	\$80	55%	6	30%	\$66	45%
Total Reviewed	51	85%	\$1,311	82%	9	15%	\$295	18%

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

FNB's loan distribution to the different household and family income levels as well as businesses of different sizes, meets the standards for satisfactory performance.

The bank obtains and analyzes applicant income information during the loan decision process; however this information is not used for CRA purposes. To assess FNB's efforts, we used the samples described above. Also, the bank does not have a minimum loan amount in policy. We reviewed the loan trial and noted a number of loans for \$500 or less (the lowest was \$100.00), and noted an additional number of other credits for \$1,000 or less. These combined factors indicate that the bank is meeting the credit needs of the community. The following tables reflect the results of our three loan samples.

Borrower Distribution of Consumer Auto Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	27%	25%	16%	30%	20%	10%	37%	15%

20% of the number and 13% of the dollar of our sample did not have income information.

Borrower Distribution of 1-4 Single Family Residence Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Consumer Loans	23%	15%	21%	25%	18%	20%	38%	40%

A significant majority of FNB's commercial loans are to businesses with gross annual revenues of less than \$1 million. The following tables illustrate the lending distribution to businesses located within the bank's assessment area.

Borrower Distribution of General Commercial Loans				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72%	2%	26%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Geographic Distribution of Loans

There are no low- or moderate-income census tracts in the designated assessment area. A geographic distribution analysis would not be meaningful.

Responses to Complaints

There were no CRA-related complaints since the prior CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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