



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 19, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank in Falfurrias
Charter Number 14072

200 S. St. Mary Street
Falfurrias, TX 78355-3629

Office of the Comptroller of the Currency

San Antonio South
10001 Reunion Place Boulevard, Suite 250
San Antonio, Texas 78216

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.

First National Bank in Falfurrias' (FNB) lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, market focus, and lending opportunities available in the assessment area (AA).
- The bank made a majority of the loans in our sample to borrowers within its AA.
- The bank demonstrates an excellent distribution of loans to borrowers of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

We performed a small bank Community Reinvestment Act (CRA) examination of the First National Bank in Falfurrias, using financial data as of December 31, 2011. The evaluation period for lending activity included loans originated between January 1, 2009 and December 31, 2011. The LTD ratio was reviewed based on a quarterly average ratio since the previous CRA examination. Analysis of lending performance was based on a sample of 21 consumer loans and 21 commercial loans, which originated during the evaluation period. During analysis of the loans, we omitted loans made outside of the AA and supplemented similar loans within the AA to reach our sample of 21 loans.

The following table demonstrated the bank's primary lending products (by dollar) during the evaluation period. This differs from prior CRA examination in that we did not combine the farm loans with the business loans. Primary products include consumer loans and commercial loans.

Loan Portfolio Summary by Loan Product	
Loan Category	% of Dollar
Commercial and Industrial	46%
Loans to Individuals	38%
Loans to Farmers	6%
Residential Real Estate	5%
Other Loans	5%

Source: Internal Loan Origination Report for the period January 1, 2009 thru December 31, 2011.

DESCRIPTION OF INSTITUTION

The First National Bank of Falfurrias (FNB) is a community bank with one office located in Falfurrias, Texas, the county seat of Brooks County. The bank is locally owned and

operated. An automated teller machine (ATM) is located on its premises, but there are no ATMs located off-site. Assets totaled \$79 million as of December 31, 2011, including \$15.8 million in loans, which represents 20 percent of total assets. FNB's loan portfolio is composed primarily of consumer and commercial loans. The bank's business strategy is to continue originating similar type of loans.

Our previous CRA Performance Evaluation, dated August 24, 2006, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has designated all of Brooks County, and southernmost census tract of Jum Wills as its AA. Falfurrias is the county seat of Brooks County, while the Jim Wells census tract noted above includes the town of Premont. Other communities located within Brooks County include Encino and Rachal. The bank's AA is comprised of three contiguous census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

The following table reflects additional AA demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA	
<i>Population</i>	
Number of Families	3,122
Number of Households	4,044
Number of Owner Occupied Household Units as a % of total Household Units.	3,035/64%
<i>Geographies</i>	
Number of CTs	3
% Low Income Census Tracts	0
% Moderate Income Census Tracts	100
% Middle Income Census Tracts	0
% Upper Income Census Tracts	0
<i>Median Family Income (MFI)</i>	
2011 MFI for the AA	\$22,755
2011 HUD updated Statewide MFI	\$48,600
<i>Economic Indicators</i>	
Unemployment Rate	8.2%
2011 Median Housing Value	\$32,835
% of Households Below Poverty Level	35.48%

Source: U.S. Census Data

As of the 2000 Census, the population of the AA was 11,848, consisting of 3,122 total families. The income levels for families within the AA are as follows: low-income is 40.2 percent; moderate-income is 18.5 percent; middle-income is 16.7 percents; and upper-income is 24.6 percents. The 2000 Census indicated 35 percent of households in the

AA had income below the poverty level. There are 4,734 housing units in the AA of which 64 percent are owner-occupied, 21 percent renter-occupied and 15 percent vacant. There has been no new residential development in the area. Within the AA, 100 percent of the population resides within a moderate-income CT. Approximately 56.4 percent of the AA's non-farm business reported revenues less than \$1 million, 2.1 percent reported revenues greater than \$1 million, and 41.5 percent did not report revenue for 2011.

The unemployment rate for the AA is 8.2 percent as of December 31, 2011 data. This has been on a downward trend and reached its most recent high of 11.6 percent in July 2011. The Texas State Unemployment rate is at 7.4 percent as of December 31, 2011.

The local economy is based on farming, ranching, hunting, and small retail businesses. The AA's major employers are the U.S. Border Patrol, Falfurrias School District, home health businesses, restaurants, and convenience stores. The bank's competition consists primarily of two branches of area banks, Greater South Texas Bank and Texas Regional Bank.

We conducted an interview with a representative from the USDA Rural Development who disclosed information regarding the economy of the AA. The representative indicated that there are guaranty-loan programs available, but banks are generally not using these at the present time. They also indicated that due to the highway project new hotels and restaurants have opened in the area. The organization believes banks need to do more small business lending and be more flexible regarding underwriting standards and collateral requirements. The contact did not provide specific information regarding FNB.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable considering the bank's size, condition, local demographics and economic factors, as well as the assessment area's credit needs. The quarterly LTD ratio since the last CRA examination average 25 percent. This compares to 19 percent at the previous CRA examination. The bank's quarterly LTD ratio ranged from a low of 17.31 percent at March 31, 2008, to a high of 33.91 percent at September 30, 2010. FNB's LTD ratio increased due to the bank's purchase of participation loans. Two local competitors, Texas Regional Bank and Greater South Texas Bank, have significantly higher LTD ratios. However, these banks have branches in several other geographical locations outside Brooks County, including location in MSAs. We also considered First National Bank of Hebbronville, which is located 25 miles from Falfurrias, as a similarly situated competitor. This bank has one main office and operates within an AA that is comparable demographically and economically to Brooks County. FNB's LTD ratio was comparable to this bank.

Institution	Total Assets as of 12/31/11(000s)	Average LTD ratio for the past 22 quarters
FNB Falfurrias	\$79,336	24.93%
Texas Regional Bank	\$90,960	75.59%
Greater South Texas Bank	\$51,520	77.77%
FNB Hebbronville	\$137,855	22.30%

Source: Call Report Data

Lending in Assessment Area

FNB’s lending in the AA is reasonable and meets the standard for satisfactory performance. The bank extends a majority of its loans to borrowers inside its AA. Of our total sample of loans, FNB originated 71 percent by number, and 42 percent by dollar amount, within in AA. The bank originates a small amount of loans outside the AA. However, those loans are large-dollar business loans, which explains the high percentage of the dollar volume of loans originated outside the AA. The following table summarizes the sample of loans made in and out of the AA.

Table 1- Lending in Brooks County AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	19	68%	9	32%	28	\$58	72.5%	\$22	27.5%	\$80
Commercial Loans	16	76%	5	24%	21	\$238	38%	\$381	62%	\$619
Total	35	71%	14	29%	49	\$296	42%	\$403	58%	\$699

Source: Loan Sample

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

The overall distribution of loans to businesses of different sizes and borrowers of different income levels is excellent. This supports an outstanding lending performance.

The following table summarizes the results of our sample of 21 business loans. FNB made a hundred percent of the number of sample loans to businesses with annual revenues of less than \$1 million. This represents excellent penetration to small businesses within the AA.

Table 2A – Borrower Distribution of Loans to Businesses in Brooks County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown/ Unavailable	Total
% of AA Businesses	56.41	2.09	41.50	100.00
% of Bank Loans in AA by #	100.00	0.00	0.00	100.00
% of Bank Loans in AA by \$	100.00	0.00	0.00	100.00

Source: Loan Sample; Dunn and Bradstreet Data

The bank’s record of consumer lending to low- and moderate-income borrowers is excellent. The percentage of the number of loans to low- and moderate-income households significantly exceeds the AA demographics. Loans made to low-income borrowers comprised of 52 percent of the sample, and moderate-income borrowers were another 24 percent. The following table summarizes the results of our sample 21 consumer loans.

Table 2B – Borrower Distribution of Consumer Loans in Brooks County AA								
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	41.08	52.38	16.54	23.81	14.86	14.29	27.52	9.52

Source: Loan Sample; U.S. Census Data

Geographic Distribution of Loans

As previously mentioned, all three census tracts located within the AA are classified as moderate-income areas. Therefore, an analysis of loan distribution by geographic area would not be meaningful.

Responses to Complaints

FNB has not received any consumer complaints during this evaluation period regarding the bank’s CRA performance.

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.